

**JOINT MEMORANDUM  
SEASONAL EXCHANGE OF ELECTRICITY CAPACITY  
BETWEEN  
ONTARIO AND QUÉBEC**

**The Governments of Ontario and Québec,**

**RESOLVED TO:**

**EXPAND** energy collaboration between Ontario and Québec through an exchange of electricity capacity;

**HELP KEEP** electricity affordable and reliable in each Province;

**CAPITALIZE** on the Provinces' complementary seasonal peaks of electricity supply and demand in order to turn existing challenges into new opportunities;

**UTILIZE** the existing interties connecting the Provinces' electricity systems to provide additional electricity capacity to each other when it is most needed;

**PROVIDE** economic benefits to the Provinces' electricity customers by avoiding the cost of new generation.

**THEREFORE HEREBY DECLARE their mutual intention to:**

**ESTABLISH** a capacity exchange arrangement that supports the reliability of each other's electricity systems in cost-effective ways by taking advantage of the Provinces' complementary seasonal peaks of electricity resources and needs;

**ADOPT** the principles outlined in the attached Memorandum of Understanding between HQ Energy Marketing Inc. and the Independent Electricity System Operator as the basis for such an arrangement;

**EVIDENCE** this arrangement through a formal agreement to be signed by their respective energy agencies.

Signed at TORONTO, on November 21, 2014, one in French and the other in English, both versions being regarded as equally authentic and valid.

SIGNED ORIGINAL

Philippe Couillard  
Premier ministre du Québec

SIGNED ORIGINAL

Kathleen O'Day Wynne  
Premier of Ontario

SIGNED ORIGINAL

Pierre Arcand  
Ministre de l'Énergie et des  
Ressources naturelles

SIGNED ORIGINAL

Bob Chiarelli  
Minister of Energy

SIGNED ORIGINAL

Jean-Marc Fournier  
Ministre responsable des Affaires  
intergouvernementales canadiennes et  
de la Francophonie canadienne

**ATTACHMENT:**  
**MEMORANDUM OF UNDERSTANDING**  
**BETWEEN**  
**HQ ENERGY MARKETING INC.**  
**AND**  
**THE INDEPENDENT ELECTRICITY SYSTEM OPERATOR**

This **MEMORANDUM OF UNDERSTANDING** (the "Memorandum of Understanding") is entered into on November [●], 2014 between HQ Energy Marketing Inc. ("HQEM") and the Independent Electricity System Operator (the "IESO"), hereinafter individually referred to as the "Party" and collectively referred to as the "Parties".

WHEREAS, from time to time Québec has excess capacity during the summer months and increased capacity needs in the winter months;

WHEREAS, from time to time Ontario has increased capacity needs during the summer months and excess capacity in the winter months;

WHEREAS, the IESO wishes to help maintain the reliability of the Ontario grid and HQEM wishes to help maintain the reliability of the Québec grid, in accordance with their policies, standards and applicable laws;

WHEREAS, each of the Parties wish to enter into sharing arrangement for such seasonal excess capacity so as to support reliability in each of their respective grids in the near and intermediate term;

WHEREAS, each of HQEM and the IESO wish to benefit from the other Party's respective seasonal capacity surpluses by assuring a MW for MW quantity of capacity will be available with no financial consideration for the capacity component of the arrangement.

**Now therefore, the Parties agree as follows:**

The purpose of this Memorandum of Understanding is to summarize the general intent of the Parties to enter into a sharing agreement and some of the elements which may be included in the final agreement, including the rights and obligations of the Parties, which will evidence the arrangement proposed hereunder.

## **- Definitions**

"Capacity Resources" shall mean (i) in relation to HQEM, capacity in Hydro-Québec's control area and (ii) in relation to the IESO, capacity in the IESO control area.

"Capacity" shall mean capacity supplied by a Party's Capacity Resources, provided that such capacity shall not be included in the calculation of the net projected capacity in the supplying Party's control area for the relevant seasonal period.

"IESO Capacity Quantity" shall mean 500 MW of Capacity, as may be reduced in accordance with Section 3.2.

"Contract Term" shall have the meaning set forth in Section 2.1 hereof.

"Contract Year" shall mean the period from December 1 through November 30.

"Delivery Point" shall have (i) with respect to Capacity and, if required, Firm Energy provided by IESO, the meaning ascribed to such term in Section 3.4 and (ii) with respect to Capacity and, if required, Firm Energy provided by HQEM the meaning ascribed to such term in Section 4.5.

"Firm Energy" shall mean, consistent with the curtailment provisions to be determined in the final agreement, non-recallable, firm energy associated with the Capacity.

"Governmental Authority" means any federal government, provincial government, administrative, judicial or regulatory person operating under any applicable laws and includes the Ontario Energy Board, the *Régie de l'énergie du Québec* and, for the avoidance of doubt, the IESO and Hydro-Québec TransÉnergie.

"HQEM Capacity Quantity" shall mean a quantity of Capacity between 0 MW and 500 MW, subject to Section 4.2.

"HQEM Delivery Period" shall, with respect to Capacity and associated Firm Energy provided by HQEM, have the meaning ascribed to such term in Section 4.1.

"IESO Delivery Period" shall, with respect to Capacity and associated Firm Energy provided by the IESO, have the meaning ascribed to such term in Section 3.1.

"Summer Period" shall mean the period from June 1 through September 30.

"Winter Period" shall mean the period from December 1 through March 31.

## **- Contract Term**

The final agreement shall be effective on December 1, 2015 and shall terminate no later than November 30, 2025 (the "Contract Term").

## **- Assurance by the IESO of Capacity and Firm Energy**

During the Winter Period of each of Contract Years one (1) to four (4) (from Contract Year starting December 1, 2015 to Contract Year ending November 30, 2019) (the "IESO Delivery Period"), the IESO (1) shall assure that the IESO Capacity Quantity shall be available to HQEM to assist HQEM to meet the applicable reliability requirements related to resource adequacy as provided by the relevant reliability authorities; and (2) if scheduled pursuant to Section 3.6,

shall provide Firm Energy at the Delivery Point, in accordance with the terms and conditions set forth in this Article 3.

The IESO shall have the ability to reduce the IESO Capacity Quantity for Contract Years three (3) and four (4) either to a lower value or down to zero. The time frame and the specifics of the notifications that the IESO will send to HQEM with respect to the reduced IESO Capacity Quantity shall be as agreed in the final agreement.

Upon written request from HQEM, the IESO shall certify in writing to HQEM that the Capacity committed by the IESO during the IESO Delivery Period is not committed elsewhere or used in the province of Ontario to satisfy any capacity requirements.

The Delivery Point is Outaouais intertie, or any other point on the Ontario-Québec interface, if that other point is selected under a common agreement of the Parties.

The price for the Capacity committed during the IESO Delivery Period is \$0.00/kW-month. During the IESO Delivery Period, HQEM may request Firm Energy for each hour up to the applicable IESO Capacity Quantity and the IESO shall schedule and provide the Firm Energy when such Firm Energy is needed for reliability purposes. Scheduling procedure will be detailed in the final agreement.

The price for the Firm Energy provided during the IESO Delivery Period shall be as agreed in the final agreement.

**- Assurance by HQEM of Capacity and Firm Energy**

During the Summer Period for each of the ten (10) Contract Years of the Contract Term (from Contract Year starting December 1, 2015 to Contract Year ending November 30, 2025) (the "HQEM Delivery Period"), HQEM (1) shall assure that the HQEM Capacity Quantity shall be available to the IESO to assist the IESO to meet the applicable reliability requirements related to resource adequacy as provided by the relevant reliability authorities; and (2) if scheduled pursuant to Section 4.7, shall provide Firm Energy at the Delivery Point, in accordance with the terms and conditions set forth in this Article 4.

The IESO shall have the flexibility to adjust the quantity of the HQEM Capacity Quantity during the HQEM Delivery Period up to 500 MW-month, provided, however, that by the end of the Contract Term the aggregate quantity of Capacity provided by HQEM to the IESO during the HQEM Delivery Period shall not exceed the aggregate quantity of Capacity provided by the IESO

to HQEM during the IESO Delivery Period. The specific terms and conditions with respect to the HQEM Capacity Quantity shall be as agreed in the final agreement.

Upon written request from the IESO, HQEM shall certify in writing to the IESO that the HQEM Capacity Quantity committed by HQEM during the HQEM Delivery Period is not committed elsewhere or used in the province of Québec to satisfy any capacity requirements.

Upon written request from the IESO, HQEM shall certify to the IESO that Firm Energy associated with the HQEM Capacity Quantity provided to the IESO is generated by hydroelectric Capacity Resources.

The Delivery Point is Outaouais intertie or any other point on the Ontario-Québec interface, if that other point is selected under a common agreement of the Parties.

The price for the HQEM Capacity Quantity provided during the HQEM Delivery Period is \$0.00/kW-month.

During the HQEM Delivery Period, the IESO may request Firm Energy for each hour up to the applicable HQEM Capacity Quantity and HQEM shall direct Hydro-Québec TransÉnergie to schedule and provide Firm Energy when such Firm Energy is needed for reliability purposes. Scheduling procedure will be detailed in the final agreement.

The price for the Firm Energy provided during the HQEM Delivery Period shall be as agreed in the final agreement.

**- REGULATORY EVENT**

As used in this Article 5, the term "Regulatory Event" means a statutory or regulatory change or issuance of an order by a Governmental Authority, including without limitations changes relating to an Open Access Transmission Tariff, Market Rules, protocols, manuals, user guides, operating guides, procedures and standards developed and utilized by Ontario and/or Québec for the scheduling, settlement and other provisions pertinent to the daily operation of the markets for the purchase and sale of energy, capacity and other products and that are administered by Ontario and/or Québec, as amended or modified from time to time, that causes a material change in (i) the meaning of a term defined herein or incorporated herein by reference, (ii) the manner in which a Party is required to perform its obligations under the final agreement or (iii) the balance of the rights, obligations or benefits that the Parties have negotiated as herein set forth do no longer reflect the intent of the Parties as reflected in the final agreement.

Upon the occurrence of a Regulatory Event, the Parties shall endeavor, in good faith and using commercially reasonable efforts, to agree to make the necessary changes to the final agreement in order to give effect to the original intention of the Parties as reflected in the final agreement. It is the intent of the Parties to agree to make such changes to the final agreement if a Regulatory Event occurs rather than for the Regulatory Event to discharge a Party's duty to perform its obligations under the final agreement.

**- MISCELLANEOUS**

It is the Parties' common understanding that curtailment of Firm Energy by a control area will be made based on such control area protocols, procedures and guidelines in line with reliability standards.

Each Party agrees that it will schedule Firm Energy only for reliability reasons and not for economic reasons or to take advantage of arbitrage opportunities.

The Parties acknowledge that when Firm Energy is scheduled to be provided to either Party, such Firm Energy will only be curtailed for reasons set out under the curtailment provisions of the final agreement and shall have priority over any other energy only transactions.

For clarity, the Parties acknowledge that this Memorandum of Understanding does not represent or otherwise constitute a binding legal commitment on either Party, except for the obligations set forth in Section 6.5, 6.6 and 6.7 which shall be binding upon the Parties.

The Parties agree to continue negotiations in good faith with a view to preparing and concluding a definitive final agreement on or before June 1, 2015, which final agreement shall contain the usual provisions relating to representations, warranties, covenants, force majeure, a party's failure to perform its obligations and all other conditions and indemnities as each of the Parties considers necessary or appropriate to an arrangement of this nature and magnitude. If the Parties are unable to conclude a definitive final agreement on or before June 1, 2015, this Memorandum of Understanding shall terminate, unless otherwise agreed to by the Parties.

Except as and to the extent required by law, neither Party shall disclose or use, and both Parties shall cause its representatives not to disclose or use, any confidential information with respect to information furnished, or to be furnished, by either party, or their respective representatives, to the other Party or its representatives in connection herewith at any time or in any manner other than in connection with the arrangement contemplated in this Memorandum of Understanding. Each Party: (i) agrees that they may release this

Memorandum of Understanding to their respective provincial governments and will otherwise only release information about the terms of this Memorandum of Understanding with the prior consent of the other Party; (ii) acknowledges that their respective provincial governments may disclose information about the terms of this Memorandum of Understanding.

This Memorandum of Understanding shall be construed and enforced in accordance with the laws in force in the State of New York, without regard to the principle of conflict of law.

The Parties agree to enter into a Non-Disclosure Agreement which will address the disclosure of confidential information. The Non-Disclosure Agreement will contain such terms, conditions and covenants as each of the Parties considers necessary or appropriate to an arrangement of this nature and magnitude.

**IN WITNESS WHEREOF**, the Parties have caused this Memorandum of Understanding to be duly executed and delivered as of the date first written above.

HQ Energy Marketing Inc.

Independent Electricity System Operator

By: \_\_\_\_\_

Name: Steve Demers

Title: Chief Operating Officer

By: \_\_\_\_\_

Name: Bruce Campbell

Title: Chief Executive Officer