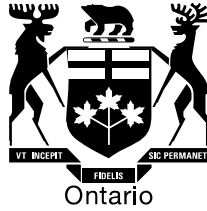


Appendix “B”

Interim Electricity Distribution Licence

July 21, 2006

ONTARIO ENERGY BOARD



Interim Electricity Distribution Licence

ED-2006-0181

Hydro One Networks Inc.

Valid Until
October 21, 2006

Original signed by

Peter H. O'Dell
Assistant Board Secretary
Ontario Energy Board
Date of Issuance: July 21, 2006

**Ontario Energy
Board**
P.O. Box 2319
2300 Yonge Street
26th. Floor
Toronto ON M4P 1E4

**Commission de l'Énergie
de l'Ontario**
C.P. 2319
2300, rue Yonge
26e étage
Toronto ON M4P 1E4

Interim Electricity Distribution Licence

1. Definitions

In this Licence:

“Accounting Procedures Handbook” means the handbook, approved by the Board which specifies the accounting records, accounting principles and accounting separation standards to be followed by the Licensee;

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

“Affiliate Relationships Code for Electricity Distributors and Transmitters” means the code, approved by the Board which, among other things, establishes the standards and conditions for the interaction between electricity distributors or transmitters and their respective affiliated companies;

“distribution services” means services related to the distribution of electricity and the services the Board has required distributors to carry out, including the sales of electricity to consumers under section 29 of the Act, for which a charge or rate has been established in the Rate Order;

“Distribution System Code” means the code approved by the Board which, among other things, establishes the obligations of the distributor with respect to the services and terms of service to be offered to customers and retailers and provides minimum, technical operating standards of distribution systems;

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

“good utility practice” means any of the practices, methods and acts engaged in or approved by a significant portion of the electric utility industry in North America during the relevant time period, or any of the practices, methods and acts which, in the exercise of reasonable judgement in light of the facts known at the time the decision was made, could have been expected to accomplish the desired result at a reasonable cost consistent with good practices, reliability, safety and expedition. Good utility practice is not intended to be limited to the optimum practice, method, or act to the exclusion of all others, but rather to be acceptable practices, methods, or acts generally accepted in North America;

“Licensee” means Name of Licensee;

“Market Rules” means the rules made under section 32 of the Electricity Act;

“Performance Standards” means the performance targets for the distribution and connection activities of the Licensee as established by the Board in accordance with section 83 of the Act;

“Rate Order” means an Order or Orders of the Board establishing rates the Licensee is permitted to charge;

“regulation” means a regulation made under the Act or the Electricity Act;

“Retail Settlement Code” means the code approved by the Board which, among other things, establishes a distributor’s obligations and responsibilities associated with financial settlement among retailers and consumers and provides for tracking and facilitating consumer transfers among competitive retailers;

“service area” with respect to a distributor, means the area in which the distributor is authorized by its licence to distribute electricity;

“Standard Supply Service Code” means the code approved by the Board which, among other things, establishes the minimum conditions that a distributor must meet in carrying out its obligations to sell electricity under section 29 of the Electricity Act;

“wholesaler” means a person that purchases electricity or ancillary services in the IESO administered markets or directly from a generator or, a person who sells electricity or ancillary services through the IESO-administered markets or directly to another person other than a consumer.

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 the 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 and 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

The Board, in the exercise of its powers conferred by Part V and particularly subsection 59(2) of the *Ontario Energy Board Act, 1998 (the “Act”)* licenses the Licensee, subject to the terms and conditions set out in this Licence, to possess and control the business of the distributor. This interim licence authorizes Hydro One to take possession and control of the business of Cat Lake Power Utility Inc.

including its deemed distribution assets which are listed in Schedule 1 of electricity transmission and wholesale licence No. ET-2002-0328 issued to Cat Lake Power Utility Ltd. on October 31, 2002, and the distribution business owned by the Ontario Electricity Financial Corporation in the Cat Lake community.

4. Term of Licence

4.1 This Licence is issued on July 21, 2006 and will terminate on October 21, 2006, unless advised otherwise by the Board. The term of this Licence may be extended by the Board.

4.2 This Licence shall take effect on the earlier of:

- the date the licensee actually possesses and controls the business of Cat Lake Power Utility Inc. including its deemed distribution assets and the distribution business owned by the Ontario Electricity Financial Corporation in the Cat Lake community; or
- August 14, 2006,

which ever occurs first.

5. Obligations under this Licence

5.1 The Licensee shall operate its electricity distribution system in accordance with good utility practice.

5.2 The Licensee shall comply with all applicable Market Rules.

5.3 The Licensee shall comply with all applicable provisions of the *Act* and the *Electricity Act, 1998*, regulations made under these statutes and all applicable orders or directives of the Board or the Managing Director of Market Operations (the "Managing Director") on licensing matters.

5.4 The Licensee shall provide, in the manner and form determined by the Board or the Managing Director, such information as the Board or the Managing Director may require from time to time to monitor the Licensee's compliance with the conditions of this licence.

- 5.5 Subject to the conditions of this interim licence, the licensee is required to carry on, manage and conduct the operations of the business in the name of the owners of the deemed distribution assets(owned by Cat Lake Power), and the owner of the distribution assets (owned by the Ontario Electricity Financial Corporation) including:
- (a) preserving, maintaining and adding to the property of the businesses;
 - (b) (b)receiving the income and revenue of the businesses;
 - (c) (c)issuing cheques from, withdrawing money from and otherwise dealing with the accounts of the business;
 - (d) (d)retaining or dismissing employees, consultants, counsel and other assistance for the businesses;
 - (e) (e)directing the employees of the businesses; and
 - (f) (f)conducting, settling and commencing litigation relating to the businesses.
 - (g) the Licensee may dispose of the deemed distribution assets(owned by Cat Lake Power Utility Inc.) or the distribution assets (owned by Ontario Electricity Financial Corporation) as are ordinarily disposed of in the normal course of carrying on the business of a distributor.

6. Obligation to Comply with Codes

- 6.1 The Licensee shall at all times comply with the following Codes (collectively the “Codes”) approved by the Board, except where the Licensee has been specifically exempted from such compliance by the Board. Any exemptions granted to the licensee are set out in Schedule 3 of this Licence. The following Codes apply to this Licence:
- (a) the Affiliate Relationships Code for Electricity Distributors and Transmitters;
 - (b) the Distribution System Code;
 - (c) the Retail Settlement Code; and
 - (d) the Standard Supply Service Code.
- 6.2 The Licensee shall:
- (a) make a copy of the Codes 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 the Codes to any person who requests it. The Licensee may impose a fair and reasonable charge for the cost of providing copies.

7. Obligation to Sell Electricity

- 7.1 The Licensee shall fulfill its obligation under section 29 of the Electricity Act to sell electricity in accordance with the requirements established in the Standard Supply Service Code, the Retail Settlement Code and the Licensee's Rate Order as approved by the Board.

8. Obligation to Maintain System Integrity

- 8.1 The Licensee shall maintain its distribution system in accordance with the standards established in the Distribution System Code and Market Rules, and have regard to any other recognized industry operating or planning standards adopted by the Board.

9. Liability of the Licensee

The licensee is not liable for anything that results from taking possession and control of the two businesses (the deemed distribution assets owned by Cat Lake Power and the distribution assets owned by OEFC) or otherwise exercising or performing the licensee's powers and duties under this Act, the interim licence or any order of the Board, unless liability arises from the licensee's negligence or wilful misconduct.

10. Provision of Information to the Board

- 10.1 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.
- 10.2 Without limiting the generality of paragraph 10.1, 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.
- 10.3 The Licensee shall:
- (a) immediately notify the Board in writing of the notice; and
 - (b) provide a plan to the Board as soon as possible, but no later than ten (10) days after the receipt of the notice, as to how the affected distribution services will be maintained in compliance with the terms of this licence.

11. Customer Complaint and Dispute Resolution

- 11.1 The Licensee shall:
- (a) have a process for resolving disputes with customers that deals with disputes in a fair, reasonable and timely manner;

- (b) publish information which will make its customers aware of and help them to use its dispute resolution process;
- (c) make a copy of the dispute resolution process available for inspection by members of the public at each of the Licensee's premises during normal business hours;
- (d) give or send free of charge a copy of the process to any person who reasonably requests it; and
- (e) subscribe to and refer unresolved complaints to an independent third party complaints resolution service provider selected by the Board. This condition will become effective on a date to be determined by the Board. The Board will provide reasonable notice to the Licensee of the date this condition becomes effective.

12. Market Power Mitigation Rebates

- 12.1 The Licensee shall comply with the pass through of Ontario Power Generation rebate conditions set out in Appendix A of this Licence.

13. Communication

- 13.1 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.

- 13.2 All communication relating to this Licence shall be in writing

- 13.3 All 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 or by courier;
- (b) ten (10) business days after the date of posting if the communication is sent by registered mail; and,
- (c) when received by facsimile transmission by the addressee, according to the sender's transmission report.

14. Copies of the Licence

- 14.1 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.

APPENDIX A

MARKET POWER MITIGATION REBATES

1. Definitions and Interpretations

In this Licence

“embedded distributor” means a distributor who is not a market participant and to whom a host distributor distributes electricity;

“embedded generator” means a generator who is not a market participant and whose generation facility is connected to a distribution system of a distributor, but does not include a generator who consumes more electricity than it generates;

“host distributor” means a distributor who is a market participant and who distributes electricity to another distributor who is not a market participant.

In this Licence, a reference to the payment of a rebate amount by the IESO includes interim payments made by the IESO.

2. Information Given to IESO

- a Prior to the payment of a rebate amount by the IESO to a distributor, the distributor shall provide the IESO, in the form specified by the IESO and before the expiry of the period specified by the IESO, with information in respect of the volumes of electricity withdrawn by the distributor from the IESO-controlled grid during the rebate period and distributed by the distributor in the distributor’s service area to:
 - i consumers served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented; and
 - ii consumers other than consumers referred to in clause (i) who are not receiving the fixed price under sections 79.4 and 79.5 of the *Ontario Energy Board Act, 1998*.
- b Prior to the payment of a rebate amount by the IESO to a distributor which relates to electricity consumed in the service area of an embedded distributor, the embedded distributor shall provide the host distributor, in the form specified by the IESO and before the expiry of the period specified in the Retail Settlement Code, with the volumes of electricity distributed during the rebate period by the embedded

distributor's host distributor to the embedded distributor net of any electricity distributed to the embedded distributor which is attributable to embedded generation and distributed by the embedded distributor in the embedded distributor's service area to:

- i consumers served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented; and
 - ii consumers other than consumers referred to in clause (i) who are not receiving the fixed price under sections 79.4 and 79.5 of the *Ontario Energy Board Act, 1998*.
- c Prior to the payment of a rebate amount by the IESO to a distributor which relates to electricity consumed in the service area of an embedded distributor, the host distributor shall provide the IESO, in the form specified by the IESO and before the expiry of the period specified by the IESO, with the information provided to the host distributor by the embedded distributor in accordance with section 2.

The IESO may issue instructions or directions providing for any information to be given under this section. The IESO shall rely on the information provided to it by distributors and 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.

For the purposes of attributing electricity distributed to an embedded distributor to embedded generation, the volume of electricity distributed by a host distributor to an embedded distributor shall be deemed to consist of electricity withdrawn from the IESO-controlled grid or supplied to the host distributor by an embedded generator in the same proportion as the total volume of electricity withdrawn from the IESO-controlled grid by the distributor in the rebate period bears to the total volume of electricity supplied to the distributor by embedded generators during the rebate period.

3. Pass Through of Rebate

A distributor shall promptly pass through, with the next regular bill or settlement statement after the rebate amount is received, any rebate received from the IESO, together with interest at the Prime Rate, calculated and accrued daily, on such amount from the date of receipt, to:

- a retailers who serve one or more consumers in the distributor's service area where a service transaction request as defined in the Retail Settlement Code has been implemented;
- b consumers who are not receiving the fixed price under sections 79.4 and 79.5 of the *Ontario Energy Board Act, 1998* and who are not served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented; and
- c embedded distributors to whom the distributor distributes electricity.

The amounts paid out to the recipients listed above shall be based on energy consumed and calculated in accordance with the rules set out in the Retail Settlement Code. These payments may be made by way of set off at the option of the distributor.

If requested in writing by OPGI, the distributor shall ensure that all rebates are identified as coming from OPGI in the following form on or with each applicable bill or settlement statement:

"ONTARIO POWER GENERATION INC. rebate"

Any rebate amount which cannot be distributed as provided above or which is returned by a retailer to the distributor in accordance with its licence shall be promptly returned to the host distributor or IESO as applicable, together with interest at the Prime Rate, calculated and accrued daily, on such amount from the date of receipt.

Nothing shall preclude an agreement whereby a consumer assigns the benefit of a rebate payment to a retailer or another party.

Pending pass-through or return to the IESO of any rebate received, the distributor shall hold the funds received in trust for the beneficiaries thereof in a segregated account.