

MEMORANDUM OF UNDERSTANDING

**PRINCIPLES TO GOVERN THE COORDINATION
OF ACTIVITIES BETWEEN
THE ONTARIO POWER AUTHORITY AND
THE INDEPENDENT ELECTRICITY SYSTEM OPERATOR**

Relationship of the IESO and the OPA

Both the OPA and IESO are committed to maintaining a co-operative and mutually supportive relationship that will result in reasonable cost for performing their respective objects for the benefit of the ratepayers of Ontario. To give effect to the foregoing, the Parties agree on the following principles:

- (a) The OPA and the IESO will coordinate their work with each other to ensure efficient planning;
- (b) The OPA and the IESO will fully share data and information as required, consistent with the need to protect confidential information;
- (c) A Party shall utilize existing processes, data and capabilities of the other Party to the fullest extent possible, where it is efficient to do so;
- (d) A Party shall make use of and, where appropriate, enhance its existing processes and capabilities in order to perform certain activities at the request of the other Party where it is efficient to do so; and
- (e) Where one Party intends to charge the other Party for a service that it will provide, the Parties shall agree in advance to the methodology to be used in calculating the charge. Generally, a Party shall not charge the other Party for any component of the activity that required no incremental effort.

Activities Requiring Coordination by the Parties

The Parties have identified several areas where they will need to coordinate their activities while fulfilling their respective objects. The Parties agree on the following delineation of their respective responsibilities in the following areas:

- (a) Regional Assessments – Current

The IESO has identified the need for additional supply to a number of areas in the 2005 10-Year Outlook, along with possible ways of addressing these needs. These potential solutions represent feasible options from a reliability perspective. The OPA accepts the need(s) for additional regional supply identified by the IESO, and shall discuss with the



IESO their relative priority and impact. Where appropriate, the OPA shall address these needs by conducting an integrated planning process which considers a range of feasible options to address the concern, and selects the best solution. The OPA may then initiate a procurement process to implement the solution if no market-based solutions are likely to be forthcoming within necessary time frames. This is not intended to preclude other methods of determining need and implementing solutions to meet that need where the government, the OEB, or the OPA decide that another method should be used. To the extent possible, the OPA shall make use of relevant assessments and analyses performed by the IESO.

(b) Regional Assessments – Future

In the future, the IESO will assist the OPA in its development of the long-term integrated power system plan by providing the OPA with data and information as well as operational insights and the results of studies and assessments. The OPA will make use of this information to the extent possible and will consult with the IESO to ensure that issues and concerns related to system reliability and operability are addressed in the integrated power system plan.

(c) Representation on Reliability Organizations

The IESO and the OPA shall coordinate their membership in or representation on the North American Electric Reliability Council (“NERC”), the Northeast Power Coordinating Council (“NPCC”), the Electric Reliability Organization (“ERO”) established pursuant to *Electricity Modernization Act, 2005* (U.S.) and any successor organizations to any of them, and any planning committees or working groups consistent with their respective objects.

(d) Reliability Assessments

The IESO shall proceed with a Market Rule amendment relieving the IESO of its obligation to prepare and publish the 10 Year Outlook required under the current rules.. Notwithstanding the above, the IESO shall continue to publish reliability assessments for future periods deemed necessary by the IESO and consistent with Integrated Power System Plans developed by the OPA. The IESO and the OPA shall negotiate an agreement that will address their respective forecasting responsibilities, including the preparation and submission of reliability reports to NERC, NPCC and other reliability organizations.

(e) Information Sharing

The OPA and the IESO shall maintain a close working relationship to facilitate the sharing of information that is useful to either organization on both an informal and formal basis and through regularly scheduled and as-needed meetings. The Parties shall maintain an appropriate confidentiality agreement to govern the exchange of information

where either Party is subject to a duty of confidentiality with respect to any such information.

(f) Connection Assessments

The IESO shall continue to perform connection assessments to identify any reliability impacts associated with new or changed connections to the IESO-controlled grid, as well as the transmission system modifications required to mitigate any negative impacts and the OPA shall consider these requirements in the OPA's integrated planning processes.

(g) Analytical Tools

The OPA shall acquire basic power flow tools and models and shall, where appropriate, request the IESO to carry-out advanced studies that are beyond the capability of the OPA's tools and models, making use of the IESO's more extensive suite of power system analysis models and tools. The IESO shall make reasonable efforts to accommodate such requests.

(h) Demand Forecasting

The OPA and IESO shall explore the possibilities for collaboration in the area of demand forecasting to ensure that the demand forecasts that each produces are consistent with one another and with their respective objects.

(i) Demand Response and Demand Management Programs

The Parties shall discuss with one another their proposals regarding the development and coordination of such programs in order that the programs not only contribute to conservation initiatives but also contribute to reducing system, regional and local peak demands and operate in a fashion that enhances market liquidity and responsiveness to market signals.

(j) Market Development Activities

The OPA and the IESO are each undertaking initiatives to help the electricity sector evolve to a more competitive, sustainable status. The parties agree to work together to define a consistent direction for market evolution and to coordinate their initiatives to advance such evolution.

(k) Contracting with Generators

The IESO shall continue to contract with generators in accordance with the market rules for the provision of "reliability must run" resources and ancillary services where inadequate supply of such services exists to warrant the establishment of a market in any such service to ensure the reliable operation of the Integrated Power System. The OPA shall act as the counter-party for contracts with generators as required to ensure the long-



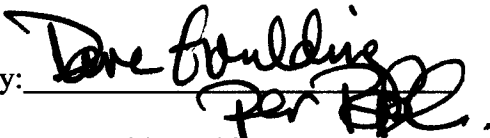
term overall adequacy of supply in Ontario, and the reliability of supply to various sub-areas within Ontario.

(1) The OPA and the IESO shall each appropriately recognize these areas of coordination in their annual business planning processes.

The specific activities identified above are not intended to be an exhaustive list. As the respective roles of the Parties evolve, the Parties shall respond so that the costs of undertaking their respective roles are managed in the interests of electricity consumers.

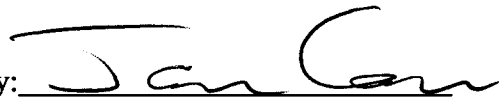
DATED this 31st day of October, 2005.

**Independent Electricity System
Operator**

By: 

Name: David Goulding
Title: President and Chief Executive
Officer

Ontario Power Authority

By: 

Name: Jan Carr
Title: Chief Executive Officer