

MAY 20 2009



Office of the Deputy Premier

Bureau du vice-premier ministre

4th Floor, Hearst Block
900 Bay Street
Toronto ON M7A 2E1
Tel.: 416-327-6758
Fax: 416-327-6754
www.ontario.ca/MEI

4^e étage, édifice Hearst
900, rue Bay
Toronto ON M7A 2E1
Tél. : 416 327-6758
Télééc. : 416 327-6754
www.ontario.ca/MEI

May 7, 2009

Mr. Colin Andersen
Chief Executive Officer
Ontario Power Authority
1600 – 120 Adelaide Street West
Toronto ON M5H 1T1

Dear Mr. Andersen:

Re: Negotiating New Contracts with Hydro-Electric Generation Facilities

I write pursuant to my authority as the Minister of Energy and Infrastructure in order to exercise the statutory power of ministerial direction, which I have in respect of the Ontario Power Authority (the "OPA") under section 25.32 of the *Electricity Act, 1998*.

Background

To support the objective of clean and efficient electricity generation and the enhancement of renewable generation and conservation, the Ministry of Energy and Infrastructure (the "Ministry") has determined that it is advisable to pursue the initiative of seeking new contracts (the "New Contracts") for hydroelectric facilities:

- (i) that are connected to the IESO-controlled grid;
- (ii) in respect of which:
 - A. there is currently no contract with a Provincial government body or agency for any part of the generation output; or
 - B. there is currently a contract with a Provincial government body or agency for any part of the generation output;
- (iii) that have previously not been eligible for consideration under any renewables request for proposals issued by the Ontario government or the Ontario Power Authority; and,
- (iv) are not as of the date of this Directive owned by Ontario Power Generation;

(collectively the "Facilities").

.../cont'd

Details of the Initiative

The details of the initiative (the "**Initiative**") are as follows:

1. Negotiations for the New Contracts will be carried out with the owners or operators of the Facilities or, where applicable, the parties that own or control the electrical output of such Facilities (the "**Facility Parties**").
2. Each New Contract will start as of the date mutually agreed upon with the applicable Facility Party. With respect to Facilities with contracts described in clause (ii)(B), the New Contract will not start until after the expiry of the existing contract and negotiations will commence within a reasonable time prior to the expiry of that contract. All of the New Contracts will end no later than twenty years from the start date.
3. Each New Contract will be on terms that reflect a reasonable cost to Ontario electricity customers and a reasonable balancing of risk and reward for the Facility Party, taking into account the specific operating characteristics of the applicable Facility and the value of the output. Consideration should also be given to refurbishment, upgrading, or expansion opportunities and costs.
4. The New Contracts will provide strong incentives for optimizing the operation of the Facilities to reflect the hour by hour value of power to the Ontario electricity system.
5. New Contracts for Facilities that have not previously been contracted to a Provincial government body or agency will be concluded by August 15, 2009 (in this regard, term sheets will be concluded with Facility Parties by June 15, 2009); otherwise New Contracts for other Facilities covered by this Directive will be concluded within such timeframe as is appropriate.

Direction

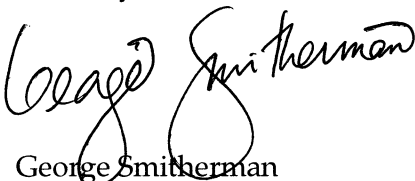
Therefore, pursuant to my statutory authority under subsection 25.32(4) of the *Electricity Act, 1998*, I hereby direct the OPA to assume responsibility for the Crown's Initiative as described above.

In pursuing the Initiative, the OPA may seek to negotiate other matters with the Facility Parties that would provide benefits to Ontario electricity customers or the Ontario electricity system.

For greater clarity, the OPA is not required by this direction to enter into a New Contract with a Facility Party where the OPA is unable to reach agreement with the Facility Party on terms that satisfy the requirements outlined in this direction, including the requirements relating to reasonable cost and a reasonable balancing of risk and reward.

This direction shall be effective and binding as of the date hereof.

Sincerely,



George Smitherman
Deputy Premier, Minister