

CES CONTRACTMRP CONTRACT AMENDMENT TERM SHEET

Heading	Provisions
1. Applicability	<p>(a) This Term Sheet has been drafted with reference to a generic Clean Energy Supply Contract (CES Contract) (the “Contract”). This Term Sheet does <u>not</u> apply to contracts for facilities that use fuels other than natural gas, contracts that do not have Imputed Production as part of their settlement calculations, or contracts in respect of any facility that does not participate in the IESO-Administered Markets.</p> <p>(b) Capitalized terms used but not defined in this Term Sheet have the meanings given to such terms in the applicable Contract.¹</p>
2. Context	<p>(a) In connection with the IESO’s Market Renewal Program (“MRP”), the IESO has published high-level designs (“HLDs”) for the Day-Ahead Market (“DAM”), Single Schedule Market (“SSM”) and Enhanced Real-time Unit Commitment (“ERUC”) projects.</p> <p>(b) Based on the designs contemplated for the DAM and SSM as set out in the respective HLDs, the IESO anticipates that a requirement for a Replacement Price and Replacement Provisions will be triggered under (i) Section 1.7 of the Contract, addressing the opening of a Day Ahead Energy Forward Market and (ii) Section 1.8 of the Contract, addressing the occurrence of a Price Evolution Event (namely the implementation of Locational Marginal Pricing²).</p> <p>(c) This Term Sheet defines the Replacement Price and Replacement Provisions anticipated to be required by Sections 1.7 and 1.8 of the Contract (the “Proposed Amendments”), and is based on the assumption that (i) the Day Ahead Energy Forward Market is opened at the same time as the implementation of Locational Marginal Pricing, and (ii) the DAM and SSM are ultimately designed and implemented on the same basis as provided for in the applicable HLDs. If either of these assumptions turns out to be incorrect, then the Proposed Amendments set forth in this Term Sheet may require further revision.</p>
3. Timing & Process	<p>(a) Negotiations of this Term Sheet are being done on a without prejudice basis. The Term Sheet is non-binding on either Party.</p> <p>(b) The Term Sheet will remain as a working draft while MRP continues to be developed. As more details are published about MRP (e.g. through the publication of detailed designs and ultimately draft IESO Market Rule amendments) and as discussions with Suppliers progress, the Term Sheet</p>

¹ This Term Sheet is based on generic CES contract language. There are minor variations in the defined terms between contracts and accordingly, once facility-specific amending agreements are drafted, they will be drafted with reference to the applicable defined terms.

² The implementation of Locational Marginal Pricing is one of the effects of moving to a single schedule market.

	<p>will be updated on an ongoing basis, as required to reflect the updated design of MRP and ongoing discussions.</p> <p>(c) On or about the same time as final or near-final IESO Market Rules for MRP are published, amending agreements based on the Term Sheet can be finalized. If a Secured Lender Consent and Acknowledgement Agreement has been entered into in respect of a Contract, the amending agreement will require consent of the Secured Lender.</p> <p>(d) The Replacement Price and Replacement Provisions will be made effective from and after the date the DAM is opened and LMP is implemented.</p> <p>(e) The generic Term Sheet and any comments on it are generally <u>not</u> considered to be confidential. As the Parties move to contract-specific discussions, it may be necessary to switch to confidential discussions to protect the confidentiality of the agreements.</p>
4. Proposed Amendments & Rationale	<p>(a) Schedule "A" to this Term Sheet sets out the Proposed Amendments.</p> <p>(b) Schedule "B" to this Term Sheet sets out the rationale for the Proposed Amendments.</p>
5. Further Evolution	<p>(a) In entering into the amending agreements, the Parties will agree that the Replacement Price and Replacement Provisions satisfy any and all obligations either Party has to the other under the applicable Contract in connection with the IESO Market Rule amendments implementing the energy stream of MRP. Any further new or amended IESO Market Rules will be addressed in accordance with relevant provisions of the Contract.</p>

Schedule “A” – Proposed Amendments

1. Create the following new defined term:

“Applicable Day-Ahead Hourly Locational Marginal Price” or “ADAHLMP” means, with respect to any hour, the locational marginal price applicable to the Facility’s Connection Point in the day-ahead IESO-Administered Market for Electricity for that hour. **[NTD: This defined term is to be finalized to align with the terminology used in final market rules.]**

2. Amend the definitions of Deemed Start-Up Hour and Deemed Shut-Down Hour in Section 3.1 of Exhibit J as follows:

- (a) A “Deemed Start-Up Hour” is the first hour of a Deemed Dispatch Interval, and is the first hour, other than a Directed Dispatch Hour, following a Deemed Shut-Down Hour in which ~~the Pre-Dispatch Price for that hour h, as published three hours prior to that hour, exceeds the applicable Variable Energy Cost, and the HOEP ADAHLMP was greater than or equal to the applicable Variable Energy Cost for that hour h or for the previous hour h-1.~~ Notwithstanding the foregoing, the requirement that the Deemed Start-Up Hour follow a Deemed Shut-Down Hour shall not apply to the first Deemed Start-Up Hour in the Term.

- (b) A “Deemed Shut-Down Hour” is the last hour in a Deemed Dispatch Interval, and is the first hour within a Deemed Dispatch Interval in which,

- (a) ~~HOEP ADAHLMP~~ was less than or equal to the applicable Variable Energy Cost for that hour h and for the previous hour h-1; or

- (b) ~~the Pre-Dispatch Prices, as published in that hour h,~~ ADAHLMP for hours h+1, h+2 and h+3 are all less than the applicable Variable Energy Cost; or

- (c) the following hour is a Directed Start-Up Hour.

3. Amend Section 3.2 of Exhibit J (Calculation of Imputed Gross Energy Market Revenue and Section 3.3.4 of Exhibit J (Calculation of Negative Interval Net Revenue Recapture) as follows:

- (a) Change all references from HOEP to ADAHLMP.

Schedule “B” – Rationale for Proposed Amendments

1. Day Ahead Energy Forward Market

- (a) In the case where a Day Ahead Energy Forward Market is opened, Section 1.7(b) sets out two principles that apply to the Replacement Price and Replacement Provisions and Section 1.7(c) sets out three additional principles (each, an “Amending Principle”, and referred to in this Term Sheet as “Principle A” through “Principle E”, respectively³).
- (b) All Amending Principles are expressly tied to Exhibit J. As such, the Proposed Amendments are confined to Exhibit J.
- (c) The approach to developing the Proposed Amendments was to satisfy the requirements of the more specific Amending Principles in a manner that would also respect the requirements of the more general Amending Principles. Principles A, C, and D are very specific as to their application, and have been directly applied in the development of the Proposed Amendments.
- (d) Principle B has been followed by continuing to deem start-ups and shut-downs on the basis of rational price signals that maximize deemed operation during hours of positive INR and minimize deemed operation during hours of negative INR, with due consideration for compensatory market-based payments to offset incurred but non-recovered costs (i.e. taking into account make-whole payments in the DAM). The Proposed Amendments do this by revising the definitions of Deemed Start-Up Hour and Deemed Shut Down Hour to use pricing information from the Day Ahead Energy Forward Market, and maintaining the structure of accounting for Start-up Costs in IVEC after-the-fact (including through the preservation of the NINRR term). Principle B also references “consideration for any other attributes which may be recognized within the Day Ahead Energy Forward Market”; however, the DAM continues to recognize the same attributes as the existing IESO-Market Rules (albeit in a different structure), and accordingly no new attributes are proposed to be introduced into Exhibit J.
- (e) Principle E has been followed by preserving the overarching structure of Exhibit J and ensuring that the quality of the hedge provided by the Imputed Production model set out in Exhibit J is not impaired for a Facility with the attributes set out in Exhibit B. The only effect of the Proposed Amendments on the Imputed Production model is to increase the notice of impending Deemed Start-Up Hours and Deemed Shut-Down Hours. According to the DAM HLD, the ADAHLMP should generally be posted by 13:30 EPT on the day before delivery, which provides considerably more notice than the existing use of the one, two and three hour-ahead Pre-Dispatch Prices. In effect, the ADAHLMP is treated as being similar in nature to a Pre-Dispatch Price for the purpose of being an imputed start/stop signal, but provided in the day-ahead timeframe rather than just one, two or three hours ahead of the delivery hour.

2. Locational Marginal Price

- (a) Section 1.8(b) provides that in the event of a Price Evolution Event, including the implementation of Locational Marginal Pricing, in Exhibit J, HOEP, or its replacement value under a Day Ahead Energy Forward Market is to be replaced with “the Ontario

³ The wording of the Amending Principles varies somewhat between certain CES contracts. The IESO does not currently consider the variance to be material.

Electricity market price that most closely emulates the price actually paid to Supplier by the Ontario Electricity market for Electricity output from the Facility” and that all other features of Exhibit J will be applicable. As such, the Applicable Day-Ahead Hourly Locational Marginal Price has been identified as the appropriate replacement value for HOEP in the context of the concurrent implementation of LMP and DAM.