

Appendix 4: Expansion Deposit Terms and Conditions

1. The following terms shall have the following meanings:

"Customer Connection" has the meaning given to that term in the Option B Terms and Conditions.

"Customer Connection Horizon" means the period of five (5) years beginning on the Energization Date.

"Energization Date" means the date that the Expansion is successfully energized by Hydro One.

"Expansion Deposit" means the deposit requested by Hydro One in accordance with Section 3.2.20 of the Code that covers the forecast risk (the risk associated with whether any projected revenue for the Expansion will materialize as forecasted) whether you have chosen Option A or Option B and where you have chosen Option B, the asset risk (the risk associated with ensuring that the Option B Work is constructed, that it is completed to the proper design and technical standards and specifications, and that the facilities operate properly when energized).

"Letter of Credit Minimum Requirements" means a letter of credit that meets all of the following minimum requirements:

- (a) is in a form that is satisfactory to Hydro One;
- (b) is issued by a bank listed in Schedule I or II of the *Bank Act* (Canada) ("**Bank**");
- (c) allows for presentment in Toronto, Ontario or presentment using a valid fax number where the Bank does not have a branch in Toronto, Ontario;
- (d) has an expiry date that is acceptable to Hydro One;
- (e) provides that any notice that the Bank does not wish to extend the letter of credit for any additional period of expiry must be provided, in writing, to Hydro One Networks Inc., 483 Bay Street, 7th Floor, South Tower, Toronto, Ontario M5G 2P5 Attn: Treasurer at least 60 days prior to any expiration date;
- (f) permits partial drawings and multiple presentations;
- (g) provides that drawings will be paid on written demand without the issuing Bank enquiring whether Hydro One has a right as between itself and the Customer to make such demand, and without recognizing any claim of the Customer;
- (h) only requirement to be met in order to draw on the letter of credit is that Hydro One present the letter of credit and a certificate stating that the amount demanded is payable to Hydro One by the Customer pursuant to the terms of the Customer Service Contract made between the Customer and Hydro One as it may be amended by the Customer and Hydro One from time to time;
- (i) provides that banking charges and commissions associated with the letter of credit are payable by the Customer;
- (j) is subject to the International Standby Practices "ISP 98" ICC Publication no. 590 ("**ISP 98**");
- (k) provides that notwithstanding ISP 98, in the event that the original of the letter of credit is lost, stolen, mutilated or destroyed, the Bank will agree to replace same upon written notice from Hydro One setting out the circumstances;
- (l) provides that matters not expressly covered by ISP 98, will be governed by the laws of the Province of Ontario and the laws of Canada applicable therein;
- (m) any dispute or claim shall be submitted to the exclusive courts within the jurisdiction of the Province of Ontario; and
- (n) permits Hydro One to lower the amount secured by the letter of credit from time to time on written notice to the Bank with no penalty, banking charges and commissions being payable by Hydro One.

"Surety Bond Requirements" means a surety bond that meets all of the following minimum requirements:

- (a) is in a form that is satisfactory to Hydro One;
- (b) surety must be Canadian;
- (c) surety must be financially acceptable to Hydro One must have at, a minimum, a long-term credit rating of "A" from a bond-rating agency acceptable to Hydro One;

- (d) provides that fees, charges and commissions associated with the surety bond, including drawings therefrom, are payable by the Customer;
- (e) allows for presentment in Toronto, Ontario or presentment using a valid fax number where the surety does not have a branch in Toronto, Ontario;
- (f) has an expiry date that is acceptable to Hydro One;
- (g) provides that any notice that the surety does not wish to extend the surety bond for any additional period of expiry must be provided, in writing, to Hydro One Networks Inc., 483 Bay Street, 7th Floor, South Tower, Toronto, Ontario M5G 2P5 Attn: Treasurer at least 60 days prior to any expiration date;
- (h) permit partial drawings and multiple presentations;
- (i) provide that drawings will be paid without the surety enquiring whether Hydro One has a right as between itself and the Customer to make such demand, and without recognizing any claim of the said Customer;
- (j) only requirement to be met in order to draw on the surety bond is that Hydro One present a certificate certifying that the amount demanded is payable to Hydro One by the Customer pursuant to the terms of the Customer Service Contract made between the Customer and Hydro One, as it may be amended by the Customer and Hydro One from time to time;
- (k) will be governed by the laws of the Province of Ontario and the laws of Canada applicable therein;
- (l) any dispute or claim shall be submitted to the exclusive courts within the jurisdiction of the Province of Ontario; and
- (m) permits Hydro One to lower the amount secured by the surety bond from time to time on written notice to the surety with no penalty, banking charges and commissions being payable by Hydro One.

"Warranty Period" has the meaning given to that term in the Option B Terms and Conditions.

"Warranty Work" has the meaning given to that term in the Option B Terms and Conditions.

2. You shall pay Hydro One an Expansion Deposit in the amount identified in the Contract upon execution in the form of cash (by way of a certified cheque, bank draft or wire transfer), a letter of credit that meets the Letter of Credit Minimum Requirements; or a surety bond that meets the Surety Bond Minimum Requirements.

Expansion Deposits provided in the form of a letter of credit or a surety bond shall not expire until the later of:

- (a) the end of the Warranty Period; and
- (b) 180 days following the expiry of the Customer Connection Horizon. If a letter of credit or surety bond has an earlier expiry date, Hydro One may draw down on the letter of credit or surety bond not more than 30 days prior to the expiry date and treat the amount drawn as a cash deposit.

3. Subject to subsections 6(a) and (b) below, Hydro One shall annually return the percentage of the Expansion Deposit in proportion to the actual Customer Connections (for residential developments) or actual demand (for commercial and industrial developments) that materialized in that year (i.e., if twenty percent of the forecasted Customer Connections or demand materialized in that year, then Hydro One shall return to you twenty percent of the Expansion Deposit) commencing on the first anniversary of the Energization Date. This annual calculation shall only be done for the duration of the Customer Connection Horizon. If at the end of the Customer Connection Horizon, the forecasted Customer Connections (for residential developments) or forecasted demand (for commercial and industrial developments) has not materialized, Hydro One shall retain the remaining portion of the Expansion Deposit.
4. Hydro One shall return Expansion Deposits provided in the form of cash with interest in accordance with the following conditions:
 - (a) interest shall accrue monthly on the Expansion Deposit commencing on receipt of the total Expansion Deposit required by Hydro One; and
 - (b) the interest rate shall be at the prime business rate set by the Bank of Canada less 2 percent.

5. Hydro One will not reimburse any amounts to you except in accordance with subsections 3 and 4 above and subsection 6(b) below.

6. If you select Option B, the following terms shall apply:
Hydro One shall be allowed to retain and use the Expansion Deposit to cover Hydro One's Costs where Hydro One must perform Warranty Work; and notwithstanding section 3, Hydro One may retain up to ten percent of the Expansion Deposit during the Warranty Period. Hydro One shall return any remaining portion of this part of the Expansion Deposit at the end of the Warranty Period.