

INTERCONNECTION LEASE AGREEMENT

Consolidated to JUNE 2, 1995

(Amendments made August 24, 1981 are omitted as they are spent by the amalgamation of Maritime Electric and Maritime Electric (P.E.I.) Limited. The 1981 amendments added Maritime Electric (P.E.I.) Limited as a party.) NOTE: THERE IS A DECEMBER 1993 AGREEMENT IN WHICH SOME OF THE AMENDMENTS REFLECTED IN THIS CONSOLIDATION ARE MADE BUT WHICH ALSO CONTAINS TERMS OF AGREEMENTS MADE PURSUANT TO THIS AGREEMENT, WHICH ARE STILL OUTSTANDING.

THIS AGREEMENT made the 30th day of March, 1976 and amended to December 23, 1985.

BETWEEN:

HER MAJESTY THE QUEEN in the right of the Province of Prince Edward Island, herein represented by the Minister of Industry and Commerce of the Province of Prince Edward Island duly authorized in that behalf by virtue of a Minute-in-Council dated this 30th day of March 1976 (hereinafter called the "Lessor")

OF THE FIRST PART;

AND:

MARITIME ELECTRIC COMPANY, LIMITED, a company incorporated under the laws of Canada with head office in Charlottetown, Prince Edward Island, and carrying on a public utility business in the Province of Prince Edward Island (hereinafter called the "Lessee")

OF THE SECOND PART:

WHEREAS the parties hereto have for some time had under discussion a basis on which the said parties might co-operate in the development of an interconnection between the

CAMPBELL, LEA, MICHAEL, MCCONNELL & PIGOT

BARRISTERS & SOLICITORS

JCh

LIAM G. LEA, O.C.
ROBERT A. MCCONNELL
M. JANE RALLING
KAROLYN M. GODFREY

PAUL D. MICHAEL, O.C.
ROSS D. PIGOT
KENNETH L. GODFREY

15 QUEEN STREET
P.O. BOX 429
CHARLOTTETOWN
PRINCE EDWARD ISLAND
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June 5, 1995

J. A. Lea, Vice-President
Corporate Planning
Maritime Electric
P.O. Box 1328
Charlottetown, P.E.I.
C1A 7N2

RECEIVED
JUN 06 1995
REGISTRY

E. A. Ludlow, Vice-President
Operations
Maritime Electric
P.O. Box 1328
Charlottetown, P.E.I.
C1A 7N2

Dear Sirs:

Re: Interconnection Lease Consolidation

For another project I had to update the consolidation of the Interconnection Lease Agreement. The consolidation includes the original 1976 agreement together with amendments to date. A copy is enclosed.

Yours very truly,

William Lea

WGL/gjr
Enclosure

electrical systems of Prince Edward Island and mainland Canada;

AND WHEREAS the Government of Canada has agreed to provide a grant of fifty percent (50%) of the cost of construction of such interconnection up to a maximum of \$18,000,000;

AND WHEREAS the Government of Canada has agreed to provide in addition a loan of twenty-five percent (25%) of the cost of the interconnection up to a maximum of \$9,000,000;

AND WHEREAS the parties are now of the opinion that construction of the facilities necessary to give effect to the development of such interconnection should forthwith be undertaken;

AND WHEREAS the parties are agreed that any and all benefits of such interconnection, including the aforementioned grants and loans by the Government of Canada shall accrue to the electric power consumers of the Province of Prince Edward Island;

AND WHEREAS the Lessor intends to recover its complete investment in the interconnection including all interest expense in the form of Rent to be paid by the Lessee.

NOW THEREFORE THIS AGREEMENT WITNESSETH THAT, in consideration of the premises, covenants and agreements herein contained, the parties covenant and agree as follows:

Section 1 - Definitions

- (a) "Basic Rent" shall mean the Rent payable by the Lessee to the Lessor pursuant to Section Five hereof and in addition thereto an amount shall be paid to build up a Contingency Fund to cover Capital Replacements as hereinafter provided.
- (b) "Business Day" shall mean any day other than a day on which banking institutions in the Province of Prince Edward Island are authorized to close.
- (c) "Capital Addition" means any addition of facilities which consists of one or more Units of Property made upon the mutual agreement of the Lessor and the Lessee, following In-Service Date as may be necessary to retain and/or to increase the capacity of the Interconnection. Capital Additions may include but not be limited to the addition of new circuits.
- (d) "Capital Replacement" means any addition of facilities which is made to take the place of interconnection facilities removed from service made upon the mutual agreement of the Lessor and the Lessee and which consists of one or more Units of Property. Capital Replacements may include but not be limited to the replacement of irreparable circuits.
- (e) "Commission" means the Public Utilities Commission of Prince Edward Island as defined in Chapter 133 of the

Revised Statutes of Prince Edward Island, 1951, or any statutory successor thereof.

- (f) "Contingency Fund" means a fund for Capital Replacements created from payments by the Lessee.
- (g) "Cost of Acquisition" means the total cost of acquiring lands and, without limiting the generality of the foregoing, includes the actual cost of the lands, the sum of any amounts of interest paid for money actually borrowed to purchase the property, commissions, legal and survey expenses incurred in connection with the property, property taxes paid in respect of the property and any other charges incidental thereto.
- (h) "Initial Capital Cost" means the aggregate of all the costs of construction of the Interconnection incurred by the Lessor up to the In-Service Date, including interest actually paid by the Lessor from the time construction begins until the In-Service Date.
- (i) "In-Service Date" means the date, as determined by the Lessor and Lessee on which construction, inspection and all testing of the Interconnection are complete and the Interconnection is satisfactory and ready for service.
- (j) "Interconnection Abandonment" means the abandonment of the Interconnection, where, as a result of submarine cables being destroyed or damaged to an extent rendering repairs impractical or uneconomic, or being otherwise

involuntarily removed from the possession and control of the Lessor and the Lessee, the Lessor and the Lessee mutually agree not to replace them.

- (k) "Interest" means, in respect of its application to the Interconnection, and for the purposes of this Agreement and the Schedules thereto, the weighted average, over the 30-year amortization period, cost of money borrowed by the Lessor for the Lessor's share of the Initial Capital Cost of this project, expressed as a percentage, or in the case of Subsequent Lessor Capital Costs, the weighted average cost of money to the Lessor over the 30-year amortization period of each Subsequent Lessor Capital Cost, expressed as a percentage.
- (l) "Island Terminal" shall mean the Prince Edward Island side bushings of the circuit breaker located in the Lessee's Substation at or near Borden, P.E.I.
- (m) "Interconnection" shall mean all facilities, equipment, apparatus, transmission lines and structures of every kind and nature required for and used in connection with the transmission of electric power and energy from the Mainland Terminal to the Island Terminal and existing at the In-Service Date, including but not limited to:
 - (i) two three-conductor 138 kV submarine cables having an approximate capacity of 100 MW each, cable termination stations on the Mainland and on the

Island to change the mode of transmission from submarine cable to overhead conductor and to permit switching of cable circuits and 138 kV overhead transmission lines from such stations to the Mainland Terminal and Island Terminal respectively;

(ii) transmission, transformation, switching, control and metering facilities and compensation devices which may be required to transmit power from the Mainland Terminal to the Island Terminal and vice versa; and

(iii) all facilities, equipment, apparatus, structures and land required for the operation of all such facilities, including electric signs, markers and other necessary warnings to navigation and located between the Mainland Terminal and the Island Terminal.

(n) "Mainland Terminal" shall mean the switching station located at or near Memramcook, N.B., where the Interconnection joins the 138 kV transmission line of The New Brunswick Electric Power Commission.

(o) "Minister of Finance" shall mean the Minister of Finance of the Province of Prince Edward Island.

(p) "N.B. Component" means the portion of the Interconnection which is located between the cable termination station on the Mainland and the Mainland

Terminal.

- (q) "P.E.I. Component" means the portion of the Interconnection which is located between the Island Terminal and the cable termination station on the Mainland.
- (r) "Payment Dates" shall mean the last Business Day of each six-month period commencing on the In-Service Date.
- (s) "Rent" shall mean all Basic Rent and Supplemental Rent.
- (t) "Service Life" means the period during which the Interconnection and Capital Additions and Capital Replacements thereto are, by mutual agreement of the parties hereto, capable of being operated economically to transfer electric power and energy.
- (u) "Subsequent Lessee Capital Costs" means the aggregate cost of Capital Replacements and/or Capital Additions incurred by the Lessee after the In-Service Date (including interest during construction) which are paid for by the Lessee.
- (v) "Subsequent Lessor Capital Costs" means the aggregate cost of Capital Replacements and/or Capital Additions incurred by the Lessor after the In-Service Date (including interest during construction) which are paid for by the Lessor.
- (w) "Supplemental Rent" means all rent payable by the Lessee to the Lessor pursuant to Section Five herein with

respect to Subsequent Lessor Capital Costs and interest on overdue payments.

- (x) "Unit of Property" means the smallest item of property which is separately written into the Interconnection plant account.

Section 2 - Routing and Design

The Lessor and Lessee shall jointly agree to the routing, type of design and letting of contracts for the construction of the Interconnection.

Section 3 - Land

The Lessee shall acquire all lands in Prince Edward Island not owned by the Lessee which, together with land already vested in the Lessor, are, in the opinion of the Lessor and Lessee, necessary for or necessarily incidental to the construction and operation of the Interconnection, and shall convey to the Lessor all such lands or portions thereof or easements as are required exclusively for the construction, operation, maintenance and use of the Interconnection. Land required to be acquired by the Lessee shall be conveyed to the Lessor at the cost of acquisition thereof by the Lessee. Such land vested in the Lessee shall be conveyed to the Lessor by the Lessee at the value thereof as determined by an appraiser appointed with the mutual agreement of the parties. Lands in Prince Edward Island

which are required for the construction, operation, maintenance and use in common of both the Island Terminal and the Interconnection including any additions thereto, shall remain vested in the Lessee.

Section 4 - Agreement to Lease

Following the In-Service Date, the Lessor will retain ownership but will deliver administration and control of the Interconnection to the Lessee and the Lessee shall operate, repair and maintain the P.E.I. Component for and on behalf of the Lessor at the Lessee's expense throughout its service life.

The Lessee shall operate the Interconnection as an integral part of the Lessee's electric supply and transmission system.

The Lessee shall maintain its accounts in a manner which will enable identification of all capital costs and operating and maintenance costs associated with the Interconnection.

Section 5 - Rent

- (a) Basic Rent - The Lessee agrees to pay to the Lessor, through the Minister of Finance, Basic Rent as follows:
 - (i) up to and including June 30, 1985, consecutive semi-annual instalments on the semi-annual payment dates, calculated in accordance with paragraph (a);

- (ii) the parties acknowledge that the Federal Government has paid the outstanding cable debt as at March 31, 1985 but interest was paid by PEI on the cable debt up to September 13, 1985; and further that MECL paid its semi-annual payment under paragraph (a) on July 1, 1985. The parties agree that any overpayment or shortfall calculated by reference to this paragraph shall be reconciled between the parties by December 31, 1985.
- (iii) After September 13, 1985, the sum of \$1.00 per year payable annually. (It being understood and agreed that the failure of the Lessee to pay the basic rent of \$1.00 in any year shall not entitle the Lessor to terminate this lease unless notice of default in payment of basic rent is given in writing by the Lessor to the Lessee and the Lessee has not rectified such default within 15 days of the notice).
- (b) Supplemental Rent - Lessee agrees to pay to Lessor through the Minister of Finance any and all Supplemental Rent promptly as the same shall become due and owing, and in the event of any failure on the part of Lessee to pay any Supplemental Rent, Lessor shall have all rights, powers and remedies provided for herein or by law or

equity or otherwise in the case of non-payment of Basic Rent. Lessee will also pay to Lessor, not later than ten days after demand, as Supplemental Rent, interest at the current prime rate charged by Canadian chartered banks on any part of any instalment of Basic Rent not paid when due for any period for which the same shall be overdue and on any payment of Supplemental Rent (other than such interest and other than any Supplemental Rent as to which interest to the date of payment is expressly provided for elsewhere in this Lease) due hereunder and not paid within ten days after demand by Lessor for the period from the date of such demand until the same shall be paid. Supplemental Rent shall be calculated in the manner set forth in Schedule "A" hereto.

Should Interconnection Abandonment occur, then all Rent due to the Lessor shall terminate on the date the Lessee commissions replacement generation in order to meet the electric power requirements of its customers and shall not resume unless the parties mutually agree to return the Interconnection to service. Replacement generation is understood to mean adequate emergency capacity. The Lessee will proceed to install additional capacity as required in order to provide reserve capacity in accordance with good utility practice.

Section 6 - Maintenance and Operation

The Lessee, at its expense, shall maintain, operate and repair the P.E.I. Component to the same extent as Lessee would, in the prudent management of its properties, maintain, operate and repair similar equipment owned by the Lessee and in any event to the extent required to maintain such equipment in good operating condition and in compliance with any applicable requirements of law or of any federal, provincial or local governmental authority having jurisdiction. Lessee will not permit the Interconnection to be used or operated in violation of any law or any rule, regulation or order of any such governmental authority having jurisdiction, unless the validity hereof is being contested in good faith and by appropriate proceedings, but only so long as such proceedings do not involve any danger of the sale, forfeiture or loss of the Interconnection or interest therein.

Section 7 - Capital Replacements

In addition to Basic Rent there shall be a Contingency Fund contribution paid by the Lessee. The Contribution will be 1/2% per annum of the Initial Capital Cost. The funds comprising the Contingency Fund shall be set up in a chartered bank or otherwise invested so that the funds required for Capital Replacements will be readily available and will, in the meantime, earn interest. The Contingency Fund shall be allowed to build up to a maximum of \$3,000,000, to be available for use for Capital Replacements as follows:

- (a) Capital Replacements will be made from the fund up to the amount of the Fund.
- (b) Capital Replacements of a cost greater than the amount in the Fund will be subject to agreement between the Lessor and the Lessee, and:
 - (i) If the Lessor makes the investment, it will be considered to be a Subsequent Lessor Capital Cost, and Supplemental Rent will be payable on the same basis by the Lessee.
 - (ii) If the Lessee makes the investment, the amount of the investment will be added to the Lessee's earnings base.
 - (iii) If mutual agreement is not reached, and if the failure to make the replacement would result in the loss of the use of the Interconnection, the Lessor must make the replacement or Interconnection Abandonment will be deemed to have occurred.

A list of Units of Property shall be agreed to by the parties hereto prior to the In-Service Date and shall be in accordance with generally accepted utility practice.

Based on future experience on Capital Replacements and on changes in the cost of making Capital Replacements, the maximum of \$3,000,000 in the Contingency Fund may be increased or decreased by mutual agreement and there may be a minimum established by mutual agreement which will be left in

the Fund to take care of small Replacements from time to time.

If the Lessor is in possession of interest or other income earned on the Contingency Fund in excess of the amount required to bring it to or to maintain it at the \$3,000,000 maximum or other maximum established pursuant to the terms of this Agreement, that excess shall be used for the benefit of the consumers of electricity in such manner as the Lessor and the Lessee may agree.

If Interconnection Abandonment occurs or at the end of the Service Life of the Interconnection, any balance remaining in the Contingency Fund shall be used to purchase other facilities to provide electric power and energy to the residents of Prince Edward Island.

The Contingency Fund shall be owned by the Lessor and payments from the Fund will be made by the Lessor.

All replacement parts shall be in as good operating condition as the parts replaced and shall have a value and utility at least equal to the parts replaced, assuming such parts were in the condition and repair required to be maintained by the terms herein. The Lessee shall not permit such replacement parts to become subject in any way to seizure under execution or otherwise.

Section 8 - Capital Additions

Upon the mutual agreement of the Lessor and the Lessee, Capital Additions shall be made to the Interconnection from

time to time.

If such Capital Additions are agreed upon and made as herein before provided, the Lessor agrees to purchase and install such Capital Additions and to lease the same to the Lessee. The Lessee agrees to lease the same from the Lessor and to pay the Lessor on account of the same such Supplemental Rent as may be determined under the provisions of this Agreement unless the Lessor and the Lessee agree on another method of determining the Supplemental Rent.

If from time to time during the term of this Agreement the Lessee should wish to make capital additions which the Lessor does not wish to finance, the Lessee may do so at its expense and the capital cost thereof shall not be taken into account when calculating Rent.

Section 9 - Benefits of Suppliers' Guarantees

If any appliances, parts, instruments, appurtenances, accessories, furnishings and other equipment of whatever nature are found to be defective while still under the supplier's guarantee, the benefits of such supplier's guarantee, if any, shall accrue as follows if:

- (i) Such benefits are in lieu of replacement of the defective part, such benefit shall accrue to the Lessee who shall apply such benefit to the replacement of such defective part; or if
- (ii) Such benefit is due to a penalty levied against a

supplier under a contract with such supplier, such benefit shall accrue to the Lessor and shall be applied in reduction of the net chargeable capital cost, as calculated in Schedule "A".

Section 10 - Insurance

(a) Insurance against Loss or Damage to Interconnection

Lessee will, without cost to Lessor, maintain or cause to be maintained in effect throughout the Term of Lease, with insurers of recognized responsibility, insurance policies insuring against loss or damage to the P.E.I. Component from such risks and in such amounts as Lessee would, in the prudent management of its properties, maintain or cause to be maintained with respect to similar equipment owned by it, due consideration being given to the probability that certain risks connected with the P.E.I. Component are uninsurable.

Notwithstanding the provisions of the foregoing sentence, however, Lessee may self-insure against such risks by deductible provisions or otherwise if:

- (i) The P.E.I. Component is self-insured to no greater extent than any similar equipment owned by Lessee, and
- (ii) In the event of loss or damage affecting the P.E.I. Component and property owned by Lessee, no more

than a pro rata portion of such self-insurance would be applicable to the P.E.I. Component.

Any insurance policies carried in accordance with this subsection (a) shall name Lessor, as owner of the P.E.I. Component, as an additional assured, and shall be made payable to Lessor as its interest may appear provided, however, that such proceeds shall first be used by Lessee to pay the costs of repair or replacement of the P.E.I. Component.

- (b) Insurance against Public Liability and Property Damage
Lessee will, without cost to Lessor, maintain or cause to be maintained in effect throughout the Lease Term of this Agreement, with insurers of recognized responsibility, insurance policies with respect to such P.E.I. Component, insuring against loss or damage to the person and property of others from such risks and in such amounts as Lessee would, in the prudent management of its business, maintain or cause to be maintained with respect to similar equipment owned by it, provided that Lessee may self-insure against such risks, by deductible provisions or otherwise, to the extent that Lessee self-insures against such risks with respect to similar equipment owned by it. Any insurance policies maintained in accordance with this subsection (b) shall name Lessor as owner of the P.E.I. Component and shall

insure Lessor's interest regardless of any breach of or violation by Lessee of any warranties, declarations or conditions contained in such policies.

(c) Reports

On or before the In-Service Date and thereafter at intervals of not more than twelve months, Lessee shall furnish Lessor a certificate signed by an Officer of Lessee showing the insurance then maintained by Lessee pursuant to this section and stating that in the opinion of the said Officer such insurance complies with the terms hereof.

Section 11 - Lessor's Representation, Warranties and Covenants

Lessor shall not be deemed to have made any representation or warranty, express or implied, as to the title, merchantability, compliance with specification, condition, design, operation or fitness of the P.E.I. Component, or any other representation or warranty whatsoever, express or implied, with respect to the P.E.I. Component, except that Lessor warrants that the P.E.I. Component shall be free of liens resulting from any acts of claims against Lessor. Lessor agrees to assign, or otherwise make available to Lessee such rights as Lessor may have under any warranty with respect to parts of the P.E.I. Component

made by the various manufacturers or any sub-contractors of the manufacturers and any other claims Lessor may have against the manufacturers or other sub-contractors with respect to the P.E.I. Component.

Lessor agrees to comply with all federal, provincial and local laws, rules and regulations applicable to the Lessor by reason of the transactions contemplated by this Lease, to the extent that such action cannot be taken by Lessee on Lessor's behalf.

Lessor agrees to provide the P.E.I. Component in accordance with the best recognized engineering practice and to consult with the Lessee before a final decision is made on type of equipment and methods of installation.

Should the Lessee disagree with any type of equipment, method of installation or location proposed for the P.E.I. Component by the Lessor, then the Lessor agrees to discuss the matters in dispute with the Lessee and, if the two parties fail to agree, the matters shall be referred to an arbitrator in accordance with Section Sixteen hereof.

Section 12 - Regulation

This Agreement shall be subject to the approval of the Commission.

In the process of the regulation of the electric power and energy rates of the Lessee by the Commission, no part of

the Initial Capital Cost and subsequent Lessor Capital Costs shall be included in the earnings base as submitted from time to time by the Lessee for the approval of the Commission.

Any subsequent Lessee Capital Costs may be included in the earnings base as submitted from time to time by the Lessee for approval of the Commission.

The Lessee shall not claim depreciation on any part of the Initial Capital Cost or Subsequent Lessor Capital Costs as an operating expense.

Section 13 - Notices

All notices required under the terms and provisions hereof shall be in writing, and any such notice shall become effective when mailed with proper postage for first class mail prepaid addressed -

- (i) if to Lessee, to it at 139 Grafton Street, P.O. Box 1328, Charlottetown, P.E.I., Attention: General Manager, or at such other address as Lessee shall from time to time designate in writing to Lessor;
- (ii) if to Lessor, to it at P.O. Box 2000, Charlottetown, P.E.I., Attention: Minister of Industry and Commerce, or at such other address as Lessor shall from time to time designate in writing to Lessee.

Section 14 - Obligations

The obligations of the parties set forth in this Agreement are conditional upon an Interconnection Agreement having been executed by The New Brunswick Electric Power Commission and the Lessee.

Section 15 - Miscellaneous

No term or provision of this Lease may be changed, waived, discharged or terminated orally, but only by an instrument in writing signed by the party against which the enforcement of the change, waiver, discharge or termination is sought.

This Lease shall constitute an agreement of lease, and shall not be construed as conveying to the Lessee any right, title, or interest in the Interconnection except as a Lessee unless expressly provided herein.

All computations of interest and amounts equivalent to interest under this Lease shall be made on the basis of a 360-day year of twelve 30-day months. Notwithstanding any provision hereof to the contrary, any payment of rent due on a day which is not a Business Day may be paid on the next day which is a Business Day without interest for the period from such due date to such date of payment.

The headings in this Lease are for convenience of reference only and shall not define or limit any of the terms

of provisions hereof.

This Lease shall in all respects be governed by and construed in accordance with, the laws of Prince Edward Island, including all matters of construction, validity and performance.

Section 16 - Arbitration

All matters in difference in relation to this Agreement and to the affairs of the Interconnection, in the event that the parties fail to agree on such matters, shall be referred to the arbitration of a single arbitrator if the parties hereto agree upon one, otherwise to three arbitrators, one to be appointed by each party and a third to be chosen by the first two, named before they enter upon the business of arbitration. The award and determination of such arbitrator or arbitrators or any two of three such arbitrators shall be binding on the parties hereto, their respective successors and assigns.

IN WITNESS THEREOF the foregoing Memorandum of Agreement has been executed by the Lessee and by the Honourable John H. Maloney, M.D. the Minister of Industry and Commerce for the Province of Prince Edward Island on the day and year first above written.

SIGNED, SEALED & DELIVERED)
by Honourable John H. Maloney,)
M.D., Minister of Industry and)

Commerce for the Province of)
Prince Edward Island, in the)
presence of:)

_____))
Witness)

Minister of Industry and
Commerce of Prince Edward
Island

SIGNED, SEALED & DELIVERED)
COMPANY,)
by Maritime Electric Company,)
Limited and countersigned by)
A. D. Cameron, President, and)
D. K. McKenney, Secretary, in)
the presence of:)

_____))
Witness)

MARITIME ELECTRIC

LIMITED

By _____
President

And _____
Secretary

LEASE AMENDING AGREEMENT

THIS AGREEMENT made as at the 13th day of December, 1993.

BETWEEN:

Her Majesty the Queen in right of the Province of Prince Edward Island,
herein represented by the Minister of Economic Development and Tourism
of the Province of Prince Edward Island (successor to the Minister of
Industry and Commerce), duly authorized in that behalf (hereinafter called
the "Lessor")

AND:

Maritime Electric Company, Limited, a body corporate with head office at
Charlottetown, in Queens County, Province of Prince Edward Island
(hereinafter called the "Lessee")

WHEREAS by agreement dated the 30th day of March 1976 as amended by
agreements dated the 24th day of August 1981 and the 23rd day of December, 1985 (the
"Interconnection Lease Agreement") the Lessee leases from the Lessor facilities,

equipment, apparatus, transmission lines and structures required for and used in connection with the transmission of electric power and energy from New Brunswick to Prince Edward Island (the "Interconnection");

AND WHEREAS the Interconnection Lease Agreement provides, at s. 7, for a Contingency Fund to which the Lessee is to contribute, in addition to Basic Rent, an amount equal to 1/2% per annum of the Initial Capital Cost of the Interconnection, the fund to be allowed to build up to a maximum of \$3,000,000 subject to increase or decrease by mutual agreement from which Capital Replacements will be made;

AND WHEREAS the Contingency Fund has reached the \$3,000,000 maximum;

AND WHEREAS the Interconnection Lease Agreement makes no provision for use of interest earned on the Contingency Fund when the agreed maximum has been reached, a subject which the parties wish to clarify;

AND WHEREAS the Interconnection Lease Agreement provides, at s.8, for Capital Additions to the Interconnection to be made upon the mutual agreement of the Lessor and the Lessee, and it further provides that such Capital Additions may be purchased and installed by the Lessor and leased to the Lessee, in which case the Lessee is to pay Supplemental Rent as may be determined under the provisions of the Interconnection Lease Agreement;

AND WHEREAS the parties have agreed that certain Capital Additions (more particularly described in Schedule "1") be acquired and placed in service and they wish to make provision for lease of those to the Lessee;

AND WHEREAS the parties wish to make provision in this agreement for use of interest that has been earned on the Contingency Fund to pay for the Capital Additions and to make provision for the amendments to the Interconnection Lease Agreement required in order to permit that;

NOW THIS AGREEMENT WITNESSETH THAT for valuable consideration received by each of the parties from the other the Lessor and the Lessee covenant and agree as follows:

1. Section 7 of the Interconnection Lease Agreement is amended as follows:
 - (a) That part of the first paragraph of s. 7 preceding clauses (a) and (b) is deleted and the following is substituted therefor:

In addition to Basic Rent there shall be a Contingency Fund contribution paid by the Lessee. The Contribution will be 1/2% per annum of the Initial Capital Cost. The funds comprising the Contingency Fund shall be set up in a chartered bank or otherwise invested so that the funds required for Capital Replacements will be readily available and will, in the meantime, earn interest. The Contingency Fund shall be allowed to build up to a maximum of \$3,000,000, to be available for use for Capital Replacements as follows:
 - (b) The following paragraph is added, between the third and fourth paragraphs of s. 7:

If the Lessor is in possession of interest or other income earned on the Contingency Fund in excess of the amount required to bring it to or to maintain it at the \$3,000,000 maximum or other maximum established pursuant to the terms of this Agreement, that excess shall be used for the benefit of the consumers of electricity in such manner as the Lessor and the Lessee may agree.
2. Section 8 of the Interconnection Lease Agreement is amended by the addition to the final sentence of the second paragraph of s. 8 of the following words: "unless the Lessor and the Lessee agree on another method of determining the Supplemental Rent".
3. Pursuant to s. 7 of the Interconnection Lease Agreement as amended by s. 1(b) of this Agreement, the Lessor and the Lessee agree as follows:
 - (a) The \$3,000,000 maximum in the contingency fund shall be reduced temporarily, effective December 13, 1993, to \$2,715,505. Thereafter as, with interest, the contingency fund builds up the maximum shall equal the amount in the fund or \$3,000,000, whichever is less.
 - (b) The interest accumulated to December 13, 1993 on the contingency fund in excess

of the \$2,715,505 maximum was today applied, by agreement of the Lessor and the Lessee, in payment of the Subsequent Lessor Capital Cost of the Capital Additions described in Schedule "1".

4. (1) Pursuant to s. 8 of the Interconnection Lease Agreement, the parties agree on the acquisition of the facilities described in Schedule "1" as Capital Additions to the Interconnection for the purpose of increasing the capacity of the Interconnection.
- (2) The Lessee having, on behalf of the Lessor, purchased and installed the Capital Additions, the Lessor has today reimbursed the Lessee for that by paying the Lessee its cost of the Capital Additions to the date of payment. However, as the amount paid by the Lessor came entirely from the contingency fund or the interest earned thereon, the Subsequent Lessor Capital Cost of the facilities shall be deemed to be a nominal \$1. The Lessee's cost of the Capital Additions for the purpose of the reimbursement included a capital-related charge to reflect the cost to the Lessee of the capital invested in the purchase, installation and carrying of the Capital Additions until the date of payment. The Lessee represents and warrants to the Lessor that the total amount paid by the Lessor hereunder neither exceeded nor was less than the actual cost to the Lessee of the purchase, installation and carrying of the Capital Additions to the date of payment, calculated as if the Lessee had acquired the Capital Additions for use as part of its own power system and in a manner consistent with the manner used for the purpose of determining the Lessee's costs for the purpose of rates charged to customers;
- (3) Effective on the date of this Agreement the Lessor hereby leases the Capital

Additions described in Schedule "1" to the Lessee in accordance with all applicable terms of the Interconnection Lease Agreement as amended by this Agreement which shall apply to the Capital Additions with necessary changes in detail; and

- (4) In accordance with s. 8 of the Interconnection Lease Agreement as amended by this Agreement, the Parties agree that the Supplemental Rent for the Capital Additions described in Schedule 1 shall be \$1 per year (it being understood and agreed that the failure of the Lessee to pay the \$1 in any year shall not entitle the Lessor to terminate the lease of the Capital Additions described in Schedule "1" unless notice of default in payment of such rent is given in writing by the Lessor to the Lessee and the Lessee has not rectified such default within 15 days of the notice).

5. Expressions that are used in this Agreement which are defined in the Interconnection Lease Agreement shall have the same meaning in this Agreement.

6. Save as amended hereby, the Interconnection Lease Agreement remains in full force and effect.

IN WITNESS whereof the parties hereto have caused this Agreement to be executed to be effective on the day and year first above written.

SIGNED, SEALED & DELIVERED)
in the presence of:

.....
Witness

)
)
)
) MINISTER OF ECONOMIC
) DEVELOPMENT & TOURISM

SIGNED, SEALED & DELIVERED) MARITIME ELECTRIC COMPANY,
in the presence of:) & LIMITED

Witness

)
) Per: