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August 9, 2011

Anthony J. Como
Director, Permitting and Siting
Office of Electric Delivery and Energy Reliability
U.S. Department of Energy
1000 Independence Avenue, SW
Room 6H-050, OE-20
Washington, DC 20585

Re: Presidential Permit PP-230-4

Dear Mr. Como:

Enclosed herewith for filing in the above-referenced proceeding are an original and two copies of the Supplemental Reply Comments of International Transmission Company d/b/a ITC*Transmission*. ("ITC"). The supplemental comments complete ITC's response to the comments filed in this proceeding in March, 2009 by the Midwest Independent Transmission System Operator, Inc., and the Independent Electricity System Operator of Ontario. The operational agreements required to complete ITC's application in this case are attached to the supplemental comments, and ITC respectfully requests that the application be approved as promptly as possible.

Certain of the material included in this filing constitutes critical energy infrastructure information ("CEII") and is so marked. It should not be released to the public. For your convenience, CD-ROMs containing electronic copies of the Public and Non-Public versions of this filing are enclosed.

Please contact the undersigned if you have questions regarding this filing. Thank you for your consideration.

Very truly yours,

John R. Staffier
Counsel for International Transmission
Company d/b/a ITC*Transmission*

cc: All parties on the attached service list.

UNITED STATES OF AMERICA
DEPARMENT OF ENERGY
OFFICE OF FOSSIL ENERGY

International Transmission Company d/b/a ITC*Transmission*	)	**Docket No. PP-230-4**

Supplemental Reply Comments of International Transmission Company d/b/a ITC*Transmission*

On January 5, 2009, International Transmission Company d/b/a ITC*Transmission* ("ITC") applied to the Department of Energy ("DOE") in this proceeding to amend its Presidential Permit PP-230-3 to authorize the installation and operation of two 700-MVA phase shifting transformers connected in series at its Bunce Creek Station in Marysville, Michigan. The new transformers, also known as phase angle regulators ("PARs"), will replace a single 675-MVA phase shifting transformer that failed at that location in 2003.

ITC's application was noticed by DOE on February 4, 2009 (74 Fed. Reg. 6607 (February 10, 2009)), with comments, protests and requests for intervention being due on March 12, 2009. No protests or requests for intervention were filed regarding the application, but comments were submitted by the New York Independent System Operator, Inc. ("NYISO") which submitted a letter of support on March 9, 2009, the Independent Electricity System Operator of Ontario ("IESO") which filed comments on March 11, 2009, and the Midwest Independent Transmission System Operator, Inc. ("MISO") which submitted comments on March 12, 2009. While supporting the installation of the new PARs, both IESO and the MISO requested that DOE condition its approval of ITC's application in certain respects relating to the future operation of the proposed facilities.

ITC filed its initial reply to the comments of these parties on March 31, 2009. ITC stated, among other things, that negotiations regarding future operations were ongoing among the parties and that there was no need for DOE to intercede in the discussion at that time. ITC further stated that before the new PARs were energized, it would file with DOE all agreements concerning future operations.

I. Supplemental Reply Comments

Since the filing of ITC's initial reply comments, installation of the PARs has been completed and this proceeding has effectively been on hold while, among other things, issues regarding the allocation of the costs of the new PARs were being pursued at the Federal Energy Regulatory Commission ("FERC").[1] Although the cost allocation issues have not yet been resolved, ITC, MISO, IESO and Hydro One Networks, Inc. ("Hydro One"), the owner of the Canadian facilities that interconnect with ITC's Presidential Permit facilities, have now completed their negotiations on operational issues and ITC is hereby submitting the following documents for filing in this docket:

- A letter agreement between ITC and MISO dated August 8, 2011 (Tab 1) assigning to MISO functional control over the facilities covered by ITC's Presidential Permit, including the new PARs. In the letter, MISO has confirmed that it is a FERC-approved Regional Transmission Organization and has agreed, among other things, that the facilities "will at all times be operated in accordance with the then current terms of, and the operating principles and for the purposes set forth in," ITC's Presidential Permit (Letter at Paragraph (2)).
- An Amended and Restated Interconnection Facilities Agreement ("IFA") between ITC and Hydro One dated August 8, 2011 (Tab 2)[2] which replaces the interconnection agreement between those parties (or their predecessors in interest) which is currently on

[1] Following the filing by ITC and MISO of a cost allocation proposal at FERC in Docket No. ER11-1844, and FERC's acceptance thereof subject to refund, PJM Interconnection, Inc. ("PJM") and several of its transmission owners and other supporters filed late interventions and comments in this case raising concerns about the impacts upon the PJM market of operating the PARs on a flow to schedule basis. ITC, MISO and IESO have submitted responses to those pleadings showing that the concerns of those parties are misplaced and without merit.

[2] Public and non-public versions of the IFA are being submitted herewith. In the public version, which is marked "Public", facility drawings and certain technical and communications information, which constitute critical energy infrastructure information ("CEII") and should not be made public, have been redacted. The non-public version includes all of this material and is marked "Non Public", "Contains CEII", "Do Not Release".

file with DOE. The Amended and Restated IFA includes a revised Schedule I which sets forth the operating principles for the PARs facilities in place on ITC's and Hydro One's interconnected facilities, including the new PARs which are the subject of ITC's pending application in this docket.[3] Schedule I also sets forth the agreed upon standard to which actual flows will match scheduled flows on the Michigan-Ontario facilities after the new PARs go into operation. (Schedule I at paragraph 1). That standard is consistent with the standard set forth in Section 3.0 of the CO2 Agreement between MISO and IESO (See footnote 2, below). Schedule I as set forth in the Amended and Restated IFA, and the CO2 Agreement, therefore, resolve all of the concerns regarding future operations raised by IESO and the MISO in their initial comments.

In addition to the above-described agreements which are being submitted for filing (and the CO2 Agreement that is being submitted for informational purposes), ITC is also submitting for DOE's consideration proposed revisions to Articles 3, 9 and 10 of ITC's Presidential Permit. (Tab 4). The proposed revision to Article 3 updates the operating principles for ITC's PARs to incorporate the principles set forth in the above-referenced revised Schedule I included in the Amended and Restated IFA, and the agreed upon standard to which actual flows will match scheduled flows on the Michigan-Ontario facilities after the new PARs go into operation. It should be emphasized that the basic operational goal set forth in the proposed Article 3 is the same as that approved by DOE when the original Bunce Creek PAR was approved in 2001, namely, controlling loop flow so that actual flows across the interface match scheduled flows to the maximum extent. (See Article 3 at page 6 of DOE's April 19, 2001 Order in Docket No. PP-230-2).

The proposed revision to Article 9 of the Permit updates and revises ITC's reporting requirements, among other things, to eliminate pricing information, which neither ITC nor MISO have access to under the current unbundled regulatory regime.

[3] The operating principles set forth in the revised Schedule I included in the Amended and Restated IFA are consistent with those agreed to by MISO and IESO in an Operating Instruction entitled "Operation of the Michigan-Ontario Tie Lines and Associated Facilities" (the "CO2 Agreement") (Tab 3). The CO2 Agreement is being submitted herewith for informational purposes and is so marked. As with the IFA, Public and Non-Public versions are being submitted and are so marked.

The proposed revision to Article 10 of the Permit clarifies ITC's right to assign functional control of the facilities covered by the Permit to an entity such as MISO, which is an FERC-approved Regional Transmission Organization and which has agreed to comply with the provisions of the Permit.

Taken together, the documents being submitted herewith for filing, and the proposed revisions to Articles 3, 9 and 10 of ITC's Presidential Permit, complete ITC's response to the comments previously submitted herein by the NYISO, IESO and the Midwest ISO. In addition, they eliminate the need for any of the operations-related conditions initially requested by IESO and MISO to be incorporated into DOE's approval of ITC's pending application in this proceeding.

II. Suggested Procedures and Request for Expedited Consideration

ITC respectfully requests that DOE accept these supplemental reply comments and the attached documents for filing and approve ITC's pending application to amend its Presidential Permit in this proceeding on an expedited basis. Since these comments and the attached documents merely supplement ITC's original response to the timely initial comments of MISO and IESO, and since the operating principles embodied in the attached operational documents – basically providing for the regulation of flows to schedule on the Michigan-Ontario interface – are substantially identical to those that have been included in ITC's Presidential Permit since the original Bunce Creek PAR was approved in 2001, and since PJM and its supporters have already commented on the proposed flow to schedule PARs operating plan in their late interventions, ITC does not believe the issuance of an additional notice by DOE is necessary prior to approval of ITC's pending application. Instead, ITC believes that DOE should promptly approve the

application without further notice so that the PARs can be placed into service and the substantial benefits of controlling Lake Erie loop flow can begin to be enjoyed.

Following approval of the application, DOE can issue a notice of its action, if it so chooses, and invite further comments on PARs operational issues. That will, among other things, allow PJM and its supporters to further pursue and develop their position that the PARs should not always be operated on a flow to schedule basis. One possible result of the comment process will be development of a data gathering program that will allow the parties to better assess the various impacts of PARs operations and better determine whether the current operational procedures should be modified. ITC is prepared to participate and cooperate in such a program, but it does not believe that development of the program should be allowed to further delay approval of the pending application and activation of the PARs.

III. Conclusion

WHEREFORE, ITC respectfully urges DOE to (1) promptly approve ITC's pending application to amend its Presidential Permit in this proceeding without conditions, (2) accept the ITC/MISO letter agreement, and the Amended and Restated IFA for filing in this docket, and (3) modify Articles 3, 9 and 10 of ITC's Presidential Permit as proposed herein.

Respectfully submitted,

/s/: Stephen J. Videto
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Counsel for International Transmission
Company d/b/a ITC*Transmission*

DATED: August 9, 2011

UNITED STATES OF AMERICA
DEPARMENT OF ENERGY
OFFICE OF FOSSIL ENERGY

International Transmission Company d/b/a ITC*Transmission*	)	**Docket No. PP-230-4**

CERTIFICATE OF SERVICE

I hereby certify that I have this day caused a copy of the foregoing document to be served on the parties on the attached service list.

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DATED: August 9, 2011

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TAB 1

August 8, 2011

Richard Doying
Vice President of Operations
Midwest Independent Transmission System Operator, Inc.
701 City Center Drive
Carmel, IN 46032

Re: Operation of international electric transmission lines crossing the U.S./Canada border between Michigan and Ontario and associated facilities

Dear Mr. Doying:

International Transmission Company, dba ITC *Transmission*, ("ITC") owns the U.S. portions of four existing international electric transmission facilities that cross the U.S./Canada border between the State of Michigan and the Canadian Province of Ontario (the "U.S. Interface Facilities"). ITC's construction, ownership and operation of the U.S. Interface Facilities are authorized by a Presidential Permit issued to ITC by the Department of Energy ("DOE") in Order No. PP-230-3 dated February 26, 2003. The connecting facilities in Canada are owned by Hydro One Networks Inc. ("Hydro One"), pursuant to authorizations issued by the Canadian National Energy Board. Ontario's Independent Electricity System Operator ("IESO") has operational control of the Canadian facilities. Although ITC has not previously assigned the U.S. Interface Facilities to the functional control of the Midwest Independent Transmission System Operator, Inc. ("MISO"), MISO, acting as Reliability Coordinator for the ITC system, has had authority to direct actions regarding those facilities in order to prevent or respond to emergencies.

Phase angle regulators (PARs) are now in place on the Canadian side of the Border on the 230 kilovolt ("kV") Waterman – Keith circuit (J5D), the 345 kV St. Clair – Lambton circuit (L4D) and the 230 kV St. Clair – Lambton circuit (L51D). In addition, new PARs have been installed by ITC as part of the U.S. Interface Facilities on the 230kV Bunce Creek-Scott (B3N) circuit. ITC applied to DOE on January 5, 2009 in Docket No. PP-230-4 to amend its Presidential Permit to authorize the Bunce Creek PARs to be operated such that the electrical flow on the Michigan-Ontario interface will match scheduled flow to the maximum extent possible, considering operational feasibility, safety, equipment limitations and regulatory and statutory requirements. As of the date of this letter agreement, however, the Bunce Creek PARs are not yet in service because, among other things, ITC's Presidential Permit has not yet been amended by the DOE to permit their operation.

ITC and Hydro One entered into a revised Interconnection Facilities Agreement effective June 5, 2009, as amended on August 6, 2009 (the "IFA"), which applies to the U.S. Interface Facilities. ITC and Hydro One are currently finalizing an additional amendment to the IFA which will, among other things, set forth revised operating principles for the Michigan-Ontario PARs, including the Bunce Creek PARs. Similarly, MISO and IESO entered into a Coordination Agreement effective January 6, 2009 regarding their interconnected operations, and, pursuant thereto, they are currently finalizing an Operating Instruction entitled "Operation of the Michigan-Ontario Tie Lines and Associated Facilities"(the "CO2 Agreement"). Among other things, the CO2 Agreement, which has been reviewed by ITC, will set forth certain operating principles, consistent with those set forth in the forthcoming amendment to the IFA, which MISO and IESO will apply to the U.S. Interface Facilities, including the Bunce Creek PARs.

In these circumstances, and in order to clarify MISO's status and role with respect to the U.S. Interface Facilities (which term, as hereinafter used in this letter agreement shall be deemed to include the Bunce Creek PARs), MISO and ITC hereby agree as follows:

1) ITC hereby assigns the U. S. Interface Facilities to MISO's functional control pursuant to Paragraph 15 of the Appendix I Agreement between ITC and Midwest ISO dated August 31, 2001 (the "Appendix I Agreement"). In that regard, MISO hereby confirms that it is a Federal Energy Regulatory Commission-approved Regional Transmission Organization. Such assignment shall be effective as of the date on which ITC's application to amend its Presidential Permit in DOE Docket No. PP-230-4 is approved. All terms and conditions of the Appendix I Agreement shall apply to the assignment, including, without limitation, the provisions of Paragraph 12 regarding Dispute Resolution and the provisions of Paragraph 18 regarding Assumption of Liability, provided however, that notwithstanding anything to the contrary in this letter agreement or the Appendix I Agreement, ITC shall be entitled to withdraw the U. S. Interface Facilities from MISO's functional control, and terminate this letter agreement, with one year written notice. In the event of such withdrawal, the rights of users of the U.S. Interface Facilities under contracts in effect prior to the effective date of the withdrawal, and the respective rights of MISO and ITC with respect to revenues received from such users following the withdrawal and with respect to reimbursement for administrative charges relating to post-withdrawal service to such users, shall be the same as set forth in Paragraph 2.3 of the Appendix I Agreement regarding withdrawal of ITC as a member of MISO.

2) Consistent with the Agreement of Transmission Facilities Owners to Organize the Midwest Independent Transmission System Operator, Inc. a Delaware Non-Stock Corporation Appendix E Section II.A.8, MISO agrees a) that the U.S. Interface Facilities will at all times be operated in accordance with the then current terms of, and the operating principles and for the purposes set forth in, the Presidential Permit issued to ITC by DOE and any other applicable DOE orders, and b) that it will fully comply with

the then current terms of the IFA, it being understood that in the event of a conflict between that agreement and the Presidential Permit or other applicable DOE orders, the Presidential Permit and the DOE orders will control.

3) MISO agrees that following execution of this letter agreement it will fully support ITC's pending application to amend its Presidential Permit in DOE Docket No. PP-230-4.

4) MISO agrees that it will provide ITC with reasonably available information regarding the operation of the U.S. Interface Facilities that ITC may require from time to time in order to ensure compliance with the Presidential Permit and for other reasonable purposes and will use its best efforts to insure that IESO provides MISO with any such required information which it will then provide to ITC. ITC agrees to comply with applicable confidentiality requirements regarding the use of such information.

5) MISO agrees that, following the execution of this letter agreement and for so long as the U.S. Interface Facilities remain under MISO's functional control, MISO will not enter into or agree to any amendments of, or modifications to any operating agreements or any other agreements that apply to or affect those facilities without first consulting with and seeking the concurrence of ITC that the proposed modifications will not violate the then current terms of ITC's Presidential Permit or the IFA or be inconsistent with operational feasibility, safety, equipment limitations, or regulatory or statutory requirements. Further, MISO agrees that it will not knowingly enter into any other agreements or operating practices that would violate the terms of the Presidential Permit.

6) ITC agrees that, following the execution of this letter agreement, and for so long as the U.S. Interface Facilities remain under MISO's functional control, ITC will not agree to any amendments of or modifications to the IFA or the Presidential Permit without first consulting with MISO.

7) As indicated above, ITC and MISO recognize that, in addition to this letter agreement between MISO and ITC, the Coordination and CO2 Agreements between MISO and IESO and the IFA between ITC and Hydro One also apply to the U.S. Interface Facilities. ITC and MISO agree that promptly following the execution of this letter agreement, their respective representatives will meet to review and appropriately coordinate and allocate the various rights, responsibilities and obligations included in each of those agreements in order to ensure that all such responsibilities and obligations can and will be properly fulfilled. They will invite representatives of Hydro-One and IESO to participate in those discussions. As between ITC and MISO, in the event that any term or condition in any other document conflicts with ITC's Presidential Permit, MISO shall operate the transferred interface facilities consistent with the Presidential Permit.

Please confirm your agreement to the foregoing by countersigning this letter agreement in the space provided below and returning it to ITC at your earliest convenience.

Very truly yours,

International Transmission Company dba ITC*Transmission*

By _____
Elizabeth A. Howell
Vice President, Operations

Acknowledge and Agreed To This 8th Day of August, 2011

Midwest Independent Transmission System Operator, Inc.

By _____
Richard Doying
Vice President of Operations

TAB 2

PUBLIC

Interconnection Facilities Agreement

Between

Hydro One Networks Inc.

and

International Transmission Company

TABLE OF CONTENTS

THIS AMENDED AND RESTATED INTERCONNECTION FACILITIES AGREEMENT made this 8th day of August, 2011

BETWEEN:

HYDRO ONE NETWORKS INC., a corporation incorporated under the laws of the Province of Ontario (hereinafter referred to as "Hydro One" or "Hydro One Networks")

PARTY OF THE FIRST PART;
- and -

INTERNATIONAL TRANSMISSION COMPANY, a corporation incorporated under the laws of Michigan dba ITC*Transmission* (hereinafter referred to as "ITC" or "ITC *Transmission*")

PARTY OF THE SECOND PART;

Individually referred to as *Party* or collectively as *Parties*

WHEREAS Hydro One Inc. (formerly named Ontario Hydro Services Company Inc.) was established pursuant to the *Electricity Act, 1998* as a successor company to Ontario Hydro and certain assets, rights and obligations of Ontario Hydro were transferred to Hydro One Inc. by or pursuant to transfer orders made under Part X of the Act;

WHEREAS Hydro One Networks is a wholly owned subsidiary of Hydro One Inc., and the successor company to which the transmission and distribution assets of Ontario Hydro were transferred;

WHEREAS ITC and Hydro One Networks are the owners and operators of transmission facilities in the United States and in Canada respectively;

WHEREAS the transmission facilities of ITC and Hydro One Networks are interconnected pursuant to an agreement dated January 29th, 1975 and entitled Interconnection Agreement between Consumers Power Company, The Detroit Edison Company and Ontario Hydro as amended from time to time (*the "1975 Agreement"*) to permit the coordinated operation of their respective transmission systems;

WHEREAS Ontario Hydro, Detroit Edison Company and Consumers Energy Company entered into an agreement dated December 21st, 1998 and entitled Interconnection Facilities Expansion *Agreement* (the "*1998 Expansion Agreement*") for the purpose of Ontario Hydro and Detroit Edison Company making certain improvements to the then existing *Interconnection Facilities*.

WHEREAS in accordance with the *Electricity Act, 1998* (Ontario), the *Independent Electricity System Operator* (the *"IESO"*) directs the operation of the *IESO-Controlled Grid* including Hydro One Networks' assets that form the part of the *Interconnection Facilities* located in the Province of Ontario;

WHEREAS pursuant to certain Federal Energy Regulatory Commission ("FERC") authorizations, the Regional Transmission Organization ("RTO") directs the operation of the various portions of the ITC transmission system with the exception of the facilities in the State of Michigan covered under this *Agreement* which are under the jurisdiction of the United States Department of Energy;

WHEREAS the *Parties* wish to permit their respective *Transmission Systems* to remain interconnected upon entering into this *Agreement* to describe the terms and conditions applicable to the operation of the *Interconnected Facilities* and the *Interconnection* of each *Party's Transmission Systems* to the other's.

NOW THEREFORE in consideration of the foregoing, and the mutual covenants, agreements, terms and conditions herein contained, the *Parties* intending to be legally bound hereby agree as follows:

ARTICLE I: GENERAL

1.1 This *Agreement* constitutes the entire agreement between the *Parties* with respect to the *Interconnection Facilities* and supersedes all prior oral or written representations and agreements concerning the subject matter of this *Agreement*, including, but not limited to the Interconnection Facilities Agreement dated June 5, 2009, as amended on August 9, 2009.

1.2 Notices

Any written notice required by this *Agreement* shall be deemed properly given and delivered if sent by registered mail, facsimiled or delivered to the addresses specified in Schedule "D". Notices shall be deemed to have been received on the date indicated on the delivery receipt if sent by registered mail; or on the date indicated on the delivery receipt or transmission slip if sent by courier or facsimile if delivered during normal business hours. If not delivered during normal business hours, delivery shall be deemed to have occurred on the next *Business Day*.

1.3 Person to be Notified

The designation of the person to be so notified or the address or facsimile number of such person may be changed at any time by either *Party* by written notice.

1.4 References

Unless otherwise specified, references in this *Agreement* to "Sections" or "Articles" are to sections and articles of this *Agreement*. Any reference in this *Agreement* to any statute or any section thereof will, unless otherwise expressly stated, be deemed to be a reference to such statute or section as amended, restated or re-enacted from time to time. The division of this *Agreement* into Articles and Sections is for convenience only, and shall not affect the interpretation of this *Agreement*. Unless the context requires otherwise, words importing the singular include the plural and vice versa and words importing gender include all genders. Where the word "including" or "includes" is used in this *Agreement* it means "including (or includes) without limitation".

1.5 Assignment

Either *Party* may assign this *Agreement* upon obtaining the consent of the other *Party*, which consent shall not be unreasonably withheld. This *Agreement* shall extend to, be binding upon and enure to the benefit of the said assigns and the respective successors of ITC and Hydro One Networks.

1.6 Rights and Remedies

Neither this *Agreement* nor any provision hereof is intended to confer upon any person other than the *Parties* hereto any rights or remedies hereunder.

1.7 Governing Law

Any actions arising under or pursuant to this *Agreement* may be initiated by a *Party* in the forum in which the other *Party* is resident. The *Agreement* shall be interpreted under and governed by the law of the State of New York, United States of America without regard to its law on conflict of laws.

1.8 Illegal, Invalid or Unenforceable

Any Article or Section of this *Agreement* or any other provision of this *Agreement* which is, or becomes, illegal, invalid or unenforceable shall be severed from this *Agreement*, and shall be ineffective to the extent of such illegality, invalidity or unenforceability, and shall not affect or impair the remaining provisions hereof.

1.9 Jurisdictions Incorporation

The *Parties* hereby agree to be bound by all regulatory requirements, codes, statutes and laws applicable to their jurisdiction which are hereby incorporated by reference into, and form part of this *Agreement*.

1.10 Modifications and Supplements

Except as otherwise provided herein, no modification or supplement to this *Agreement* shall be valid or binding unless set out in writing and executed by the *Parties* with the same degree of formality as the execution of this *Agreement*.

1.11 Licenses and Governmental Authority

This *Agreement* is subject to the initial and continuing governmental permissions and the obtaining of all requisite approvals and authority to establish, construct and maintain interconnections to interchange electrical energy.

1.12 If the *OEB*, the *NEB*, *FERC* or the United States Department of Energy (or any successor boards or agencies), a court of competent jurisdiction or other governmental entity with the appropriate jurisdiction (collectively, the "Regulatory Bodies") issues a rule, regulation, law or order that has the effect of canceling, changing or superseding any term or provision of this *Agreement* (the "Regulatory Requirement"), then this *Agreement* will be deemed modified to the extent necessary to comply with the Regulatory Requirement. Notwithstanding the foregoing, if the Regulatory Body materially modifies the terms and conditions of this *Agreement* and such modification(s) materially affect the benefits flowing to one or both of the *Parties*, the *Parties* agree to attempt in good faith to negotiate an amendment or amendments to this *Agreement* or take other appropriate action(s) so as to put each *Party* in effectively the same position in which the *Parties* would have been had such modification not been made. In the event that, within sixty (60) days or some other time period mutually agreed upon by the *Parties* after such modification has been made, the *Parties* are unable to reach agreement as to what, if any, amendments are necessary and fail to take other appropriate action to put each *Party* in effectively the same position in which the *Parties* would have been had such modification not been made, then either *Party* shall have the right to unilaterally terminate this *Agreement*.

Nothing in this *Agreement* shall be construed as affecting in any way the rights of either *Party* to unilaterally make application to any one or more of the Regulatory Bodies having jurisdiction over the *Party* for a change in rates, terms and conditions, charges, classifications of service, rule or regulation.

1.13 IESO and Hydro One Networks

Nothing in this *Agreement* shall be construed as requiring Hydro One Networks to act contrary to or refrain from acting in accordance with the IESO's direction.

1.14 The *Agreement* shall apply to the operation of the *Interconnection Facilities* regardless of their location or which of them (or portion thereof) are in service at any time.

1.15 This Agreement may be executed in counterparts, including facsimile counterparts, each of which shall be deemed an original, but all of which shall together constitute one and the same agreement.

ARTICLE II: DEFINITIONS

2.1 Defined Terms

In addition to the terms defined in Schedule "F", the following terms, wherever used in this *Agreement*, shall have the following meanings and are equally applicable to both the singular and plural form:

"Agent" means a *Qualified* person duly authorized by a *Party* to perform specific limited operations for the *Controlling Authority/Operating Authority*;

"Agreement" means this Agreement, the schedules attached hereto and all amendments made hereto by written agreement between the *Parties* in accordance with the terms of this *Agreement*;

"Automated Mode" means an arrangement which provides for automatically controlling the operation of *Equipment* under predetermined conditions;

"Business Day" means a day other than a Saturday, a Sunday or a public holiday in the Province of Ontario or the State of Michigan;

"Communication Facilities" means the transmitters, communication medium (fiber optics, twisted pair, radio frequency, power line carrier, microwave, etc.) and receivers, such that a signal can be transmitted from one device over the communication medium and received by another device. This definition implies that there is a common protocol for each device to ensure interoperability and that a receiving device understands, or can interpret the signal sent from the transmitting device;

"Communication Terminal Equipment" means the transmitter and receiver portion of the *Communication Facilities*, excluding the communication medium;

"Confidential Information" means:

(i) the terms of this *Agreement* and the operations and dealings under this *Agreement*;
(ii) all information disclosed by a *Party* to the other *Party* under this *Agreement* or in negotiating this *Agreement* which by its nature is confidential to the *Party* disclosing the information; and
(iii) all interpretative reports or other data generated by a *Party* that are based in whole or in part on information that is made *Confidential Information* by clauses (i) and (ii);

"Continuous Rating" as used in Schedule "G" for ratings of the *Interconnection* circuits is defined as the maximum load that may be carried continuously on the circuit (For ITC, this is the normal or day-to-day rating of the circuit);

"Electricity Act, 1998" or **"Act"** means the Electricity Act, 1998 being Schedule "A" of the Energy Competition Act, S.O. 1998, c. 15, as amended (Ontario);

"Effective Date" means the date that this Agreement is effective being the date that the *1975 Agreement* and the *1998 Expansion Agreement* were terminated;

"Emergency" means any abnormal system condition that requires remedial action to:

(a) ensure worker and public safety;
(b) protect the integrity of the interconnected system;
(c) protect the environment; or
(d) protect Equipment;

"End of Life" means the state where:

1. (a) the original in-service capabilities of equipment have been (or are expected to be) substantially diminished, and
   (b) the cost of restoring or purchasing equipment to achieve the original in-service capabilities exceeds the cost of other viable alternatives, or
2. new physical requirements exceed the original in-service capabilities of the equipment;

"End of Life Replacement" means where *Equipment* needs to be replaced because the *Equipment* has reached *End of Life*;

"Equipment" means any structures, transmission lines or cables, transformers, breakers, disconnect switches, buses for the purpose of conveying electricity; and their related voltage/current transformers, protection systems, telecommunications systems, or any other auxiliary equipment;

"Extraordinary Maintenance or Repair" means an unexpected activity or activities required to be performed in response to unforeseen circumstances which include but are not limited to:
(a) Force Majeure;
(b) manufacturer's defect; or
(c) work other than *Routine Maintenance*.

For clarity, Extraordinary Maintenance or Repair does not include:
(a) damage that resulted from negligent operating, maintenance or construction practices;
(b) damage that resulted from failure to ensure physical security of the site (breach of security, e.g. trespassing/vandalism); and
(c) unit retrofit to increase life expectancy unless agreed by both *Parties*;

"FERC" means the Federal Energy Regulatory Commission established pursuant to the *Federal Power Act* (United States);

"Force Majeure Event" means, in relation to a person, any event or circumstance, or combination of events or circumstances,

(i) that is beyond the reasonable control of the person;
(ii) that adversely affects the performance by the person of its obligations under this *Agreement*; and
(iii) the adverse effects of which could not have been foreseen or prevented, overcome, remedied or mitigated in whole or in part by the person through the exercise of diligence and reasonable care and includes, but is not limited to, acts of war (whether declared or undeclared), invasion, armed conflict or act of foreign enemy, blockade, embargo, revolution, riot, insurrection, civil disobedience or disturbances, vandalism or acts of terrorism, strikes, lockouts, restrictive work practices or other labour disturbances, unlawful arrests or restraints by government or governmental, administrative or regulatory agencies or authorities unless the result of a violation by the person of a permit, licence or other authorization or of any applicable law, and acts of God including lightning, earthquake, fire, flood, landslide, unusually heavy or prolonged rain or accumulation of snow or ice or lack of water arising from weather or environmental problems; provided however, for greater certainty, that the lack, insufficiency or non-availability of funds shall not constitute a *Force Majeure Event*;

"Forced Outage" means an unscheduled *Outage* due to the actual or potential failure of *Equipment*;

"Good Utility Practice" means any of the practices, methods and acts engaged in or approved by a significant portion of the electric utility industry in North America during the relevant time period, or any of the practices, methods and acts which, in the exercise of reasonable judgement in light of the facts known at the time the decision was made, could have been expected to accomplish the desired result at a reasonable cost consistent with good business practices, reliability, safety and expedition. *Good Utility Practice* is not intended to be limited to the optimum practice, method, or act to the exclusion of all others, but rather to be acceptable practices, methods, or acts generally accepted in North America;

"IESO" means the Independent Electricity System Operator established under Part II of the *Electricity Act, 1998* (Ontario) that directs the operations of Hydro One Networks' *Transmission System;*

"IESO-Controlled Grid" means the *Transmission Systems* with respect to which, pursuant to operating agreements, the *IESO* has authority to direct operations. For the purpose of this *Agreement, IESO-Controlled Grid* means those *Transmission Facilities* owned by Hydro One Networks that are part of the *IESO-Controlled Grid;*

"Interconnection" means the physical link to or through Hydro One Networks' *Transmission Facilities* and ITC's *Transmission Facilities*;

"Interconnection Facilities" means those facilities described in Schedule "A";

"Interconnection Point" means a point (or points as the case may be) of connection between Hydro One Networks' *Interconnection Facilities* and ITC's *Interconnection Facilities*;

"Long Term Emergency (LTE) Rating" as used in Schedule "G" for ratings of the *Interconnection* circuits is defined as the maximum load that may be carried on the circuit for up to 24 hours (For ITC, this is the emergency rating of the circuit);

"Maintenance" includes, but is not limited to, routine maintenance, *Extraordinary Maintenance or Repair, End of Life Replacement*, troubleshooting, repairs, approved changes, and such other modifications as may be required for the safe and efficient operation of the *Equipment;*

"Manual Mode" means the control of the operation of *Equipment* manually by operator action;

"Market Rules" means the rules made by the IESO under Section 32 of the *Electricity Act, 1998* (Ontario) applicable to Hydro One Networks and entities that are

registered as market participants in accordance with the Market Rules;

"NEB" means the National Energy Board established pursuant to the *National Energy Board Act* (Canada);

"NERC" means the North American Electric Reliability Corporation.

"OEB" means the Ontario Energy Board established pursuant to the *Ontario Energy Board Act, 1998* (Ontario);

"Ontario Energy Board Act, 1998" means the *Ontario Energy Board Act, 1998* being Schedule "B" of the Energy Competition Act, S.O. 1998, c. 15, as amended (Ontario);

"Operating Orders" are orders issued by a *Controlling Authority/Operating Authority* to facilitate the removal or restoration of *Equipment* or to establish the necessary conditions for *Work Protection*;

"Outage" means the removal of *Equipment* from service, unavailability of *Equipment* connection or temporary de-rating, restriction of use, or reduction in performance of *Equipment* for any reason including, but not limited to, permitting the inspection, testing, maintenance or repair of *Equipment*;

"PARS" or **"Phase Angle Regulators"** means the Phase Angle Regulators installed in the J5D, L4D, L51D *Interconnections* as more particularly described in Schedule "A" and the Phase Angle Regulator(s) to be installed in the B3N *Interconnection* in accordance with the terms of this *Agreement;*

"Planned Outage" means an *Outage* that is scheduled, in advance, to occur at a pre-selected time, usually for construction, preventive maintenance or repair;

"Promptly" means performed in an expeditious manner and without undue delay, using due diligence, and with the intent of completing the required act or task as quickly as practicable;

"Protections" (Hydro One Networks) means *Equipment* designed to detect and isolate failed or faulted elements (ITC equivalent term is *Relays*);

"Qualified" means assessed by a *Party* in personal competency, familiarity with the knowledge of all applicable rules, regulations, guidelines, policies, codes, procedures, apparatus and *Equipment*, and dangers with respect to work and operation;

"Relays" (ITC) means equipment designed to detect and isolate failed or faulted elements (Hydro One Networks equivalent term is *Protections*);

"Regional Transmission Organization" or "RTO" means the large-scale (primarily multi-state) electric transmission system operator who is the Reliability Coordinator and the Market Operator for scheduled transactions over the ITC transmission system assets in the State of Michigan which is, as of the *Effective Date*, the Midwest Independent Transmission System Operator Inc., a Delaware non-stock corporation;

"Routine Maintenance" means work performed on a regular basis including without limitation:
(a) routine scheduled oil analysis;
(b) routine scheduled oil processing;
(c) routine scheduled inspections and checks including but not limited to visual and infra-red visual inspection;
(d) routine scheduled function and diagnostic tests;
(e) normal preventive cosmetic maintenance, corrosion touch up paint and corrective actions;
(f) minor oil leakage repairs;
(g) alarm/protection system checks; and
(h) minor-ancillary/equipment/component repair/replacement;

"Site" means the premises and the buildings on, in or around which *Transmission Facilities* are located;

"Transmission Facilities" means any and all equipment of any kind whatsoever owned by either *Party* and used in their respective *Transmission Systems* including, but not limited to, the *Interconnection Facilities* and associated protection and control facilities;

"Transmission System" means a system for transmitting electricity and includes any structures, *Equipment* or other things used for that purpose; and

"Transmission System Control Center" means:
(a) for Hydro One Networks, the Ontario Grid Control Centre (**"OGCC"**) and Hydro One Networks' back up control centers; and
(b) for ITC, its Operations Control Room (**"OCR"**) and ITC's back up control centers.

ARTICLE III: SCOPE OF AGREEMENT

3.1 Scope

3.1.1 This *Agreement* provides the basis for operating and maintaining the *Interconnection Facilities*. Specifically, it describes:

(a) the requirements for the safe operation, switching, notification, response to emergencies, and isolation of the *Interconnection Facilities*;
(b) the circumstances under which the *Interconnection Facilities,* in whole or in part, can be disconnected and the remedial actions required in order to permit the restoration of the operation of the *Interconnection Facilities* so disconnected; and
(c) the *Equipment* comprising the *Interconnection Facilities* and how it shall be operated for the mutual advantage and benefit of both *Parties*.

Schedule "A" contains a detailed description of the *Interconnection Facilities*.

ARTICLE IV: TERM

4.1 This *Agreement* shall take effect as of the *Effective Date* and shall continue in full force and effect until terminated.

4.2 Termination

4.2.1 This *Agreement* may be terminated at any time by mutual agreement. It may also be terminated upon at least one year prior notice in writing given by either *Party* to the other, provided that such unilateral termination shall not prejudice any outstanding obligations entered into under this *Agreement* that have accrued as of the date of termination. Without limiting the generality of the foregoing, the liability provisions, the confidentiality provisions and the obligations to pay monies owed prior to termination shall survive termination.

4.2.2 Neither *Party* may terminate this *Agreement* other than in accordance with the provisions providing for such termination set out in this *Agreement.*

ARTICLE V: ASSET OWNERS' COMMITTEE

5.1 General

Each *Party* shall assign, within 30 days of this *Agreement* becoming effective, a member and an alternate to an Asset Owners' Committee with the authority to act on their behalf with respect to actions or decisions taken by the Asset Owners' Committee. The members of the Asset Owners' Committee shall meet from time to time but at least once per calendar year unless delayed by mutual agreement to review issues of interest to the *Parties* in relation to the *Interconnection Facilities*. The Asset Owners' Committee may invite guests to their meetings. Invitations shall be by mutual agreement of the Asset Owners' Committee. Request for guest attendance approval shall be submitted by a *Party* at least two business days in advance to the meeting.

The Asset Owners' Committee shall review and address:
(a) *Interconnection Facilities*' utilization policies and principles;
(b) Deficiencies identified in the operation of the *Interconnection Facilities*;
(c) Opportunities to improve the operation of the *Interconnection Facilities* under the responsibilities of the *Parties* under this *Agreement*;
(d) *Equipment* ratings and operating restrictions;
(e) The *Outage* planning process used by the *Parties* and *Planned Outages*;
(f) Plans for changes on Hydro One Networks' *Transmission System* or ITC's *Transmission System* that may affect the operation of the *Interconnection Facilities*;
(g) Proposed upgrades or modifications to the *Protections, Relays* or communications facilities for the *Interconnection Facilities*;
(h) The impact on the *Interconnection Facilities* of the requirements of regulatory and reliability bodies including, but not limited to the *NERC*, the *IESO*, the *RTO*, the *NEB*, the *OEB*, *FERC* and the U.S. Department of Energy and their successor or replacement agencies;
(i) Incidents affecting the operation or performance of the *Interconnection Facilities*;
(j) Operating procedures, constraints and conditions for an *Emergency* operating mode on an annual basis; and
(k) Proposed revisions to this *Agreement.*

5.2 Authority

The Asset Owners' Committee shall have the authority to:

(a) approve and release changes to any or all of the schedules in this *Agreement* save and except for Schedules "I", as required from time to time to reflect changes in the operation of the *Interconnection*;
(b) write, approve and release new schedules to be part of this *Agreement* as required from time to time;
(c) determine and revise acceptable remedial actions required to ensure the acceptable operation and performance of the *Interconnection Facilities*;
(d) identify measures and technologies to be applied to minimize the risk of failure of *Equipment* that is subject to cost sharing arrangements;
(e) monitor *Maintenance* procedures on *Equipment* subject to cost sharing arrangements to ensure that *Good Utility Practice* is followed in the operation and *Maintenance* of such *Equipment;*
(f) address issues including, but not limited to, deficiencies associated with the protection, isolation, or control equipment for the *Interconnection Facilities* that impacts the operation of the *Transmission Systems* of either *Party*;

(g) resolve disputed matters submitted to the Asset Owners Committee as part of the Dispute Resolution process;
(h) establish such other committees, subcommittees, task forces, working groups or other bodies, as it deems appropriate for purposes of administering this *Agreement*; and
(i) negotiate alternatives to cost sharing arrangements in the event that *Extraordinary Maintenance* or *Repair* or *End-of-Life Replacement* is required on the *Interconnection Facilities* in accordance with the cost sharing provisions found in Section 6.1.1 and Schedule B.

ARTICLE VI: OBLIGATIONS

6.1 General

6.1.1 Except as specifically provided herein, each *Party* shall bear their own costs of compliance with this *Agreement*. These include, but are not limited to, costs associated with the operation, inspection and *Maintenance* of their respective assets comprising the *Interconnection Facilities* including associated protection control and communication equipment, in the manner described in this *Agreement*.

Each of ITC and Hydro One Networks shall be responsible individually for the performance of operation and *Maintenance* of the *Interconnection Facilities* owned by it, including all costs associated therewith. However, in the case of *Extraordinary Maintenance* or *Repair* or *End-of-Life Replacement* associated with the *Phase Angle Regulators* and the voltage regulating autotransformers described in Schedule "B" hereto, certain costs shall be shared equally as provided for in Schedule "B" provided that such equipment shall have been placed and remained in service under normal conditions, including regular under-load tap changing, where applicable, for at least one year.

The need for such *Extraordinary Maintenance* or *Repair*, or *End-of-Life Replacement*, the scope of work and the estimated costs therefore shall be agreed by the Asset Owners' Committee in advance, unless an *Emergency* makes the work necessary before review and concurrence of the Asset Owners' Committee can be obtained. In such case, the *Party* performing the *Extraordinary Maintenance or Repair* or *End-of-Life Replacement* shall notify the other *Party* as soon as it is practicable, of the scope of work and the reason(s) the *Extraordinary Maintenance* or *Repair End-of-Life Replacement* is necessary. The shared costs of *Extraordinary Maintenance* or *Repair* or *End-of-Life Replacement* shall include associated expenses for removal (if necessary), transportation and re-installation.

Schedule "B" contains the list of *Equipment* subject to cost sharing arrangements as well as details of inclusions and exclusions of shared cost.

6.1.2 Each *Party* shall follow *Good Utility Practice* in (a) the selection of, inspection and maintenance of *Equipment* comprising the *Interconnection Facilities;* (b) undertaking repairs required to correct any deficiencies; and (c) performing its obligations under this *Agreement.*

6.1.3 Each *Party* is responsible for ensuring that grounding devices on their *Equipment* have been removed prior to being placed on potential.

6.1.4 Each *Party* shall make reasonable attempts to accommodate the other *Party's* interests when planning changes to the *Interconnection Facilities.*

6.1.5 Each *Party* shall ensure that their respective staff or *Agents* are *Qualified* as having sufficient knowledge of the *Equipment*, policies and procedures described in this *Agreement* and that this knowledge will be monitored and applied. Evidence of staff or *Agents'* qualification shall be made available upon request.

6.1.6 In order to ensure the safe, efficient and effective operation of ITC's *Interconnection Facilities* and Hydro One Networks' *Interconnection Facilities*, ITC and Hydro One Networks hereby agree to disclose to each other operating data and other relevant information that may affect the operations of their respective *Interconnected Facilities.*

6.1.7 Duty to Repair

The *Parties* recognize the mutual benefit of operation with all *Interconnection Facilities* operational and all *Equipment* in service. Therefore, subject to Section 1.11 hereof, both *Parties* have a duty to repair any *Equipment* that is a part of the *Interconnection Facilities* as soon as practical using commercially reasonable efforts.

6.2 Normal Operations

6.2.1 Each *Party* shall remove *Equipment* or *Interconnection Facilities* from service in accordance with their reporting and scheduling obligations described in this *Agreement.* However, if removal from service is necessary to prevent damage to either *Party's* equipment or *Interconnection Facilities* or to protect the safety of employees, the public or the environment, the removing *Party* shall *Promptly* notify the other *Party's Controlling Authority/Operating Authority.*

6.2.2 The *Parties* shall cooperate to establish equipment ratings and monitor power flows for their respective *Interconnection Facilities.*

6.2.3 The *Parties* agree that *Equipment* in the *Interconnection Facilities* shall be operated within *Continuous Ratings* for normal operating conditions.

6.2.4 When potential is being applied to *Equipment*, which extends into the other *Party's Transmission System*, the *Controlling Authority/Operating Authority* of the *Party* applying potential shall obtain approval from his/her counterpart.

6.3 Equipment Protections / Relays Settings

The *Parties* shall cooperate in determining and establishing the settings of *Protections* and *Relays* to preserve the integrity of its assets and security of their respective *Transmission Systems*. This cooperation may include submission to the other *Party* of relevant electrical drawings and proposed settings of the *Protections* and *Relays* associated with the *Interconnection Facilities* for their review prior to their implementation.

6.4 Emergency Operations (Preparedness)

6.4.1 The operating procedures, constraints and conditions for an *Emergency* operating mode are described in Schedule "E", including reporting instructions and *Emergency* contacts.

6.4.2 Each *Party* shall provide the other *Party* with all necessary instructions and phone numbers for Emergency responses and mutual assistance including reporting procedures. This information will be kept up to date by each *Party* and is found in Schedule "C".

6.4.3 Each *Party* agrees that *Equipment* in the *Interconnection Facilities* shall be operated within post contingency ratings for the prescribed period of time immediately after the occurrence of a contingency event affecting the *Interconnection Facilities*. Operation of *Equipment* beyond agreed upon post-contingency ratings shall be at the owner's discretion.

ARTICLE VII: PLANNING FOR NEW OR MODIFIED CONNECTION FACILITIES

7.1 Each *Party* shall provide written notice to the other *Party's* Asset Owners' Committee member of proposed new or modified connection facilities (generation, load and/or transmission) that may affect the other *Party's Transmission System* as soon as the proposed new or modified connection facilities are public knowledge or sooner if the *Party* is able to obtain any required authorization to disclose information that might be deemed confidential or proprietary by the third party proposing the proposed new or modified connection facilities.

7.2 The *Parties* agree to cooperate in the undertaking of studies to assess the impact that new or modified connection facilities may have in the other *Party's Transmission System.*

7.3 Each *Party* shall provide further written notice to the other *Party's* Asset Owners' Committee member, when a facility study has been completed and when a connection/construction agreement has been signed and/or regulatory approval has been granted for the proposed new or modified connection facilities that may affect the other *Party's Transmission System.*

7.4 Each *Party* shall determine the cost of modifications, enhancements and reinforcements on the *Party's Transmission Facilities* required to accommodate new or modified connection facilities in the other *Party's Transmission System.* Such modifications, enhancements and reinforcements include but are not limited to the following:

(a) protective relay and control facilities, and associated telecommunications attributed to the project;
(b) modifying existing connection lines attributed to the project;
(c) breakers attributed to the project;
(d) disconnect switches; and
(e) bus sections at the terminal stations in the network pool attributed to the project.

7.5 The following factors shall be considered in calculating the costs applicable to section 7.4:

(a) advancement costs of replacing existing breakers and switches before the end of their useful life; and
(b) the costs of upgrading the *Equipment* to the next practical rating, including, but not limited to, removal and decommissioning cost less any salvage value of the removed facilities.

7.6 Each *Party* agrees to submit the cost recovery issues of the other *Party* to the regulatory bodies in their respective jurisdictions and, if permissible, support recovery of such costs, where one *Party* is affected by a proposed new or modified connection to the other *Party*'s *Transmissions System.*

7.7 Each *Party* shall be required to, on a reasonably practical basis but no less than once per year, provide the other *Party* with system information which might affect the flow patterns and ratings of the *Interconnection.* Hydro One Networks will provide ITC with system information pertaining to changes to transmission system equipment which affects impedance values or ratings. However, information that pertains to changes to Ontario generator and load will be provided to ITC after Hydro One Networks has obtained it from publicly available sources. Each *Party* will actively support the other *Party* in their endeavors to obtain all necessary information from the respective reliability coordinator to conduct system impact and/ or other reliability studies.

ARTICLE VIII: COMMUNICATION

8.1 Compliance

The *Parties* agree to comply with their obligations regarding operational requirements, reporting standards, and communications protocol as described in Schedule "E".

8.2 Information

Each *Party* shall endeavour to maintain an ongoing interchange of information about operation (including *Planned Outages* and *Forced Outages*, system tests, etc.) which could reflect into, or be of significance to, either *Transmission System* prior to the actual operation when appropriate.

8.3 Organizations and Authorities

The operating organizations and *Controlling and Operating Authorities* involved in the operation of the *Interconnection Facilities* are described in Schedule "E".

8.4 Telephone Numbers

A list of important business telephone numbers pertinent to this *Agreement* is attached as Schedule "C".

8.5 Communication Path

The Communication path for the operation of the *Interconnected Facilities* under normal and *Emergency* conditions is attached as Schedule "E".

8.6 Terminology

Schedule "F" summarizes the approved operating terminology and their meanings to be used in communication between Controlling and Operating Authorities.

ARTIXLE IX: OUTAGE COORDINATION

9.1 Obligations

9.1 ITC and Hydro One Networks shall use reasonable efforts to coordinate any required *Planned Outages* to maximize the availability of the *Interconnection Facilities*. Typically, this will include all *Interconnection Facilities* and any equipment within each *Transmission System* which may have a direct impact on the transmission capability of the *Interconnection.*

9.2 ITC and Hydro One Networks shall establish an *Outage* planning process to comply with the reporting and scheduling obligations set out in Schedule "H".

ARTICLE X: PHASE ANGLE REGULATORS

10.1 In accordance with the terms of the *1998 Expansion Agreement*, Hydro One Networks:

(a) installed a 230 kV 850 MVA *Phase Angle Regulator* and associated bypass switching facilities in the L4D *Interconnection* terminal at the Lambton Generating Station;
(b) installed a 230 kV 850 MVA *Phase Angle Regulator* and associated bypass switching facilities in the L51D *Interconnection* terminal at the Lambton Generating Station; and
(c) reconfigured the existing 230/345 kV voltage-regulating 600 MVA autotransformer in the L51D *Interconnection* such that it will operate in parallel with the existing 230/345 kV voltage-regulating 600 MVA autotransformer in the L4D *Interconnection.*

10.2 In accordance with the terms of the *1998 Expansion Agreement*, ITC installed:

(a) a 230 kV 645 MVA *Phase Angle Regulator* and associated bypass switching facilities in the B3N *Interconnection* terminal at its Bunce Creek Station which later failed; and

(b) a 230/345 kV voltage-regulating 1000 MVA autotransformer in the L51D *Interconnection* at its St. Clair Power Plant facility.

10.3 Due to the failure of the *Phase Angle Regulator* referenced in Subsection 10.2(a) above, ITC agrees to install one or more *Phase Angle Regulators* with a combined total capacity of at least 645 MVA in the B3N *Interconnection* terminal at its Bunce Creek Station.

10.4 To the extent that that they have not already done so for their respective *Phase Angle Regulators*, the *Parties* shall make reasonable commercial efforts to establish automatic and manual control of the *Phase Angle Regulators* including, but not limited to installing and making operational:

(a) integrated phase-angle control facilities and suitable *Communication Facilities* at their respective *Transmission System Control Centers* suitable for control of the *Phase Angle Regulators* in *Automated Mode* and *Manual Mode*; and
(b) *Communication Terminal Equipment* suitable for receiving control signals from, and transmitting *Phase Angle Regulator* tap position status to, the remote control location between the *Parties* respective *Transmission System Control Centers* for all of the *Phase Angle Regulators* in operation.

To this end and in recognition of the need for a compatible protocol for *Communication Facilities* between controlling stations and remote stations, the *Parties* agree to collaborate fully to develop functional design specifications for the *Communication Facilities* and the *Communication Terminal Equipment* referenced in 10.4 (a) and (b) above.

Furthermore, if either *Party* has to purchase or lease new *Communication Facilities*, excluding *Communication Terminal Equipment*, for the purpose of this Section 10.4, the *Parties* shall share such costs equally.

10.5 At any time when the *Phase Angle Regulators* are being controlled in *Manual Mode*, the *Parties* agree that control of the *Phase Angle Regulators* in *Manual Mode* will be implemented by the *IESO* and the U.S entity that has functional control over the *Interconnection Facilities* located in the U.S. giving jointly agreed upon operating orders to the entity(ies) with the physical control of the *Phase Angle Regulators* in operation. Each of the *Parties* hereby agrees to *Promptly* respond to such operating orders. However, if a *Party* does not respond to any such operating order because responding may cause damage to that Party's equipment or *Interconnection Facilities* or endanger the safety of employees, the public or the environment, the non-responding party shall *Promptly* notify the other *Party*, the *IESO* and the above-referenced U.S. entity.

10.6 The *Parties* agree that control of the *Phase Angle Regulators* in *Manual Mode* is an interim measure and they shall make reasonable commercial efforts to establish control of the *Phase Angle Regulators* in *Automated Mode*.

To this end, the *Parties* agree to collaborate fully to develop functional design specifications for, and install and make operational, an integrated automated controller for the *Phase Angle Regulators* and any additional associated *Communication Facilities* and *Communication Terminal Equipment* that might be required in this regard.

10.7 The *Parties* agree to comply with and operate the *Phase Angle Regulators* in accordance with:

(a) the operating principles set forth in Schedule "I" (the "*Principles*"); and

(b) the direction for the normal operation of the *Phase Angle Regulators* agreed by ITC and Hydro One Networks as set out in the Standard Operating Practice described in Section 10.8 below

10.8 The *Parties* agree to use their best efforts to develop a detailed standard operating practice (the "PAR SOP"), to implement the *Principles* no later than thirty days following the *Effective Date*. Thereafter, the *Parties* agree to comply with and operate the *Phase Angle Regulators* in accordance with the *PAR SOP*.

The *Parties* agree that if there is a conflict between the *Principles* and the *PAR SOP*, the *Principles* shall govern.

ARTICLE XI: REQUIREMENTS FOR WORK SAFETY CONDITIONS

11.1 The execution of all work, whether planned or *Emergency*, shall be performed under safe working conditions on *Interconnections* or *Equipment* connected to them.

11.2 Each *Party* shall have and maintain documented procedures to establish and maintain specified safety conditions until all working personnel have been reported clear of the *Equipment* and the *Work Protection* has been surrendered.

11.3 Each *Party* shall carry out work on its *Equipment* in accordance with their safety and *Work Protection* practices as described in Schedule "F".

ARTICLE XII: LIABILITY AND *FORCE MAJEURE*

12.1 Liability

Other than for sums payable under this *Agreement*, a *Party* will only be liable to the other *Party* for any damages that arise directly out of willful misconduct or gross negligence in meeting their respective obligations under this *Agreement*. Despite the foregoing, neither *Party* shall be liable under any circumstances whatsoever for any loss of profits or revenues, business interruption losses, loss of contract or loss of goodwill, or for any indirect, consequential, special or incidental damages, including but not limited to punitive or exemplary damages, whether any of the said liability, loss or damages arise in statute, contract, tort or otherwise.

12.2 *Force Majeure*

Neither *Party* shall be in default or deemed to be in default in the performance of its obligations under this *Agreement*, to the extent that performance of any such obligation is prevented or delayed by *Force Majeure Event*. If a *Party* is prevented or delayed in the performance of any such obligation by a *Force Majeure Event*, such *Party* shall immediately provide notice to the other *Party* of the circumstances preventing or delaying performance and the expected duration thereof. Such notice shall be confirmed *promptly* in writing. The *Party* so affected by the *Force Majeure Event* shall endeavour to remove the obstacles, which prevent performance and shall resume performance of its obligations as soon as

reasonably practicable. The time for performing the obligation shall be extended for a period equal to the time during which the *Party* was subject to the *Force Majeure Event*. Both *Parties* shall explore all reasonable avenues available to avoid or resolve *Force Majeure Events* in the shortest time possible, but this requirement shall not oblige the *Party* suffering a strike, lockout or labour dispute to compromise its position in such dispute.

ARTICLE XIII: DEFAULT

13.1 General

If either *Party* fails to or neglects at any time to fully perform, observe and comply with all the terms, conditions and covenants herein, then the non-defaulting *Party* shall as soon as practicable, notify the defaulting *Party* in writing of such default and the defaulting *Party* shall correct such default to the satisfaction of the non-defaulting *Party* within thirty (30) days of the issuance of such notice or sooner in the case of an emergency, as may be determined by the non-defaulting *Party* or within a longer time period if agreeable to the other *Party*, failing which the non-defaulting *Party* may forthwith terminate this *Agreement* and the rights and privileges herein granted.

13.2 Termination Due to Bankruptcy or Insolvency of a *Party*

Either *Party* shall be entitled, at its option, to terminate this *Agreement* immediately upon written notice to the other *Party* upon the other *Party* becoming bankrupt or insolvent or upon the other *Party* ceasing to carry on business.

13.3 Disconnect

When a non-defaulting *Party* has terminated the *Agreement* under Sections 4.2, 13.1 or 13.2, the non-defaulting *Party* may disconnect the *Interconnection Point* and shall be entitled to de-commission and remove any of its *Equipment* associated with the *Interconnection Facilities* and the *Interconnection Point*.

13.4 Force and Effect

If this *Agreement* is terminated under Sections 4.2, 13.1 or 13.2, then upon termination the *Agreement* will, subject to Section 13.5, be of no further force and effect.

13.5 Rights and Obligations

If this *Agreement* is terminated under Sections 4.2, 13.1 or 13.2, the termination of this *Agreement* shall not affect any rights or obligations of either *Party* that may have accrued before termination, nor affect either *Party's* rights or obligations of this *Agreement*, which will continue in full force and effect notwithstanding the termination of this *Agreement* (such as, but not limited to the liability provisions in Section 12.1).

13.6 Exercising Rights and Remedies

Subject to the limitation of liability in Section 12.1 hereof, the rights and remedies of the *Parties* in this *Agreement* are not intended to be exclusive but rather are cumulative and are in addition to any other right or remedy otherwise available to the *Parties* at law or in equity. Either *Party* may exercise one or more of its rights and remedies from time to time, independently or in combination, without prejudice to any other right or remedy that either *Party* may have exercised. This subsection shall not operate to void the application of Article XV of this *Agreement*, to any dispute arising between the *Parties*.

13.7 Other Rights and Remedies

If any of the remedies provided for and chosen by a non-defaulting *Party* are found to be unenforceable, the non-defaulting *Party* may exercise any other right or remedy available to it at law or in equity.

ARTICLE XIV: CONFIDENTIAL INFORMATION

14.1 General

All *Confidential Information* shall at all times be treated as confidential, and shall be prepared, given, and used in good faith. The *Parties* shall use the *Confidential Information* only for the requirements of the work being performed including, but not limited to, planning or operating the *Parties' Interconnection Facilities* or *Transmission Systems*, and not for any other purpose, and shall not disclose it to any third party, directly or indirectly, without the prior written consent of the *Party* that provided the *Confidential Information*, and in such events the third party must agree to use the *Confidential Information* solely for the requirements of the work as specified. *Confidential Information* shall not be used for any commercial purpose of any kind whatsoever other than contemplated herein.

14.2 Exclusions

"*Confidential Information*" does not include:

(a) information that is in the public domain, provided that specific items of information shall not be considered to be in the public domain merely because more general information about a given item is in the public domain, and provided that the information is not in the public domain as a result of a breach of confidence by the *Party* seeking to

disclose the information or a person to whom it has disclosed the information;

(b) information that is, at the time of the disclosure, in the possession of the recipient, provided that it was lawfully obtained either from the other *Party* or from sources, who did not acquire it directly or indirectly from the other *Party* under an obligation of confidence; and

(c) information that must be disclosed in compliance with a judicial or governmental order or other legal process.

14.3 Exceptions

Each *Party* shall keep *Confidential Information* confidential except:

(a) as may be necessary in an *Emergency*;
(b) to the extent required by law;
(c) if required in connection with legal proceedings, arbitration or any expert determination relating to the subject matter of this *Agreement*, or for the purpose of advising a party in relation thereto;
(d) to the extent required by the *Party's* license; or
(e) to the extent required by the *Market Rules* or as may be required to enable a *Party* to fulfill its obligation to any reliability organization.

14.4 Disclosure

In the event the Receiving *Party* is required to disclose *Confidential Information* of the Disclosing *Party*, the Receiving *Party* shall *Promptly* notify the Disclosing *Party* prior to disclosing the *Confidential Information*, to the extent practicable, so that the Disclosing *Party* may seek an appropriate protective order or other appropriate protection and/or waive the Receiving *Party*'s compliance with this *Agreement*. Unless the Disclosing *Party* agrees that all *Confidential Information* may be disclosed, the Receiving *Party* shall furnish only that portion of the *Confidential Information* which it is legally required to disclose, and will exercise all reasonable efforts to obtain reliable assurance that confidential treatment will be accorded the *Confidential Information*.

14.5 Co-operation

The *Parties* shall make any information required to be provided or communicated under the terms of this *Agreement* available to each other in a timely and co-operative manner.

14.6 Duration of Survival

The confidentiality provisions of this Article XV will continue and survive for a period of 6 years after the termination of this *Agreement*.

ARTICLE XV: DISPUTE RESOLUTION

15.1 Role of Asset Owners' Committee

All disputes shall first be submitted for resolution to the Asset Owners' Committee. Any dispute submitted for resolution to the Asset Owners' Committee which is not resolved by the Asset Owners' Committee within five (5) Business Days following submission of the dispute to the Asset Owners' Committee and any disputes of the Asset Owners' Committee itself, shall be submitted to the designated corporate officer(s) of each *Party* for resolution by good faith negotiations.

15.2 Arbitration Notice

15.2.1 Failing resolution of the dispute by the corporate officers pursuant to Section 15.1 within twenty (20) *Business Days* following the first notice of submission of the dispute to them, the *Parties* may mutually agree to submit the dispute to final and binding arbitration to be conducted in Ontario or Michigan in accordance with this *Agreement* and the commercial Arbitration Rules of the American Arbitration Association. If both *Parties* are agreeable to submit the dispute to final and binding arbitration but cannot agree on the location, the *Parties* agree that the arbitration will be conducted in the State of New York.

15.2.2 The *Parties* shall meet within ten *Business Days* of agreeing to submit the dispute to arbitration, to attempt to agree on an arbitrator *Qualified* by experience, education and training to arbitrate the dispute. If the *Parties* fail to meet, or otherwise are unable to agree on the selection of a single arbitrator within those ten Business Days, each *Party* will select one arbitrator. The two arbitrators so selected shall, within ten Business Days following their selection, jointly appoint a third arbitrator to be the sole arbitrator, after which appointment the role of the first two arbitrators shall end. If the two arbitrators selected by the *Parties* are unable to agree on the selection of the third arbitrator within ten Business Days following their selection, those two arbitrators may apply to a court of competent jurisdiction to appoint the sole arbitrator within ten Business Days following the request. Each arbitrator must be qualified by education, training and experience to pass upon the particular matter to be decided and shall have no relationship, direct or indirect, with either of the *Parties*.

15.2.3 The arbitrator(s) will be instructed that time is of the essence in the arbitration proceeding. The arbitrator shall proceed as soon as is practicable to hear and determine the dispute, and shall be directed by the *Parties* to provide a written decision resolving the dispute within 60 days following his or her appointment or such other date as may be agreed in writing by the *Parties*. The *Parties* shall provide such assistance and

information as may be reasonably necessary to enable the arbitrator to determine the dispute. Any decision of the arbitrator will be in writing and will be final and binding upon the *Parties*, with no right of appeal from it and subject to Section 15.4 below, shall deal with the question of costs of arbitration and all related matters.

15.3 Performance During Dispute Resolution

While any dispute (other than a dispute that a *Party* has reasonable grounds for alleging is a fundamental breach of this *Agreement*) is being resolved, the *Parties* shall continue to perform all obligations under this *Agreement* with due diligence and continue to comply with all terms of this *Agreement* to preserve the integrity of the *Interconnection Facilities*.

15.4 Legal Costs of Dispute

Each *Party* shall be liable for all legal, expert and other costs incurred by it in resolving any dispute under this Article XV and the decision of the arbitrator relating to costs shall deal only with the fees and expenses of the arbitrator(s).

[Intentionally Left Blank]

IN WITNESS WHEREOF, the *Parties* hereto have caused this *Agreement* to be executed in duplicate attested by the signatures of their duly authorized officers, as of the day and year first written above.

Elizabeth Howell

I have the authority to bind International Transmission Company

Elizabeth A. Howell
Vice President, Operations

I have the authority to bind Hydro One Networks Inc.

Laura Formusa
President and CEO

IN WITNESS WHEREOF, the *Parties* hereto have caused this *Agreement* to be executed in duplicate attested by the signatures of their duly authorized officers, as of the day and year first written above.

ITC

I have the authority to bind International Transmission Company

Elizabeth A. Howell
Vice President, Operations

hydro one

I have the authority to bind Hydro One Networks Inc.

Laura Formusa
President and CEO

SCHEDULE "A" Brief Description of the Interconnection Facilities.

REDACTED

SCHEDULE "B" Cost Sharing for Extraordinary Maintenance and Repair

B1.1 List of Equipment

The following *Equipment* is subject to cost sharing in the case of *Extraordinary Maintenance* or *Repair*, or *End-of-Life replacement.*

Interconnection	*Equipment*	Owner
L4D	Autotransformers T7 and T8	Hydro One Networks
L4D	Phase angle regulator PS4	Hydro One Networks
L51D	Phase angle regulator PS51	Hydro One Networks
L51D	Autotransformer 351	ITC
B3N	Autotransformer 201	ITC
B3N	Phase angle regulator (Currently not in service as of the *Effective Date*)	ITC
J5D	Transformer / *Phase Angle Regulator* PSR5	Hydro One Networks

B1.2 Details of Work Subject to Cost Sharing and Exclusions

The attached Table B-1 describes the work that is subject to cost sharing and, where applicable, exclusions.

B1.3 Eligibility

To make *Equipment* in the above list eligible for cost sharing, it must have been in use under normal conditions, including regular under-load tap changing, where applicable, for at least one year.

B1.4 Regular Maintenance

The owner shall keep records of all commissioning logs, inspection checks, corrective and planned maintenance activities and agrees to provide copies to the other *Party* upon request.

Table B-1

Details of Work Subject to Cost Sharing and Exclusions as Appropriate

Work	Shared Cost	Exclusions
Repair of any internal transformer or phase shifter failure that requires the transformer or *Phase Angle Regulator* to be dismantled, transported to a repair facility, repaired, reassembled and re-commissioned for operation or storage.	Corrective work related to the failed components and co-lateral damage to the transformer or phase shifter arising from the failure.	Customary paint, gasket, protective device, pump, fan and tap changer maintenance work performed while at the repair facility. Premature maintenance costs for the transformer or phase shifter related to the above shall not be shared unless damaged by the failure that initiated the repair or during disassembly and transport to the repair facility.
Repair of any sub-component failure that requires the oil to be drained from the tank or tap changer compartment, including bushing failures, pump failures, internal lead failures, turret failures, major leaks	Any such action with the transformer or *Phase Angle Regulator* failure frequency exceeding four occurrences over the transformer or phase shifter life.	End-of-life disposal or oil maintenance.
Bushing replacement due to failure of the transformer or phase shifter.	Yes.	No.
Tapchanger diverter or selector switch. Replacement due to failures	Yes.	Overhauled diverter swaps for maintenance. Contact and/or spring replacements
Repair of oil leakage between main oil and under-load tapchanger compartments.	Yes.	No.
Installation of intensive-care monitoring (such as a transformer nursing unit, on-line Power Discharge monitoring) with the intent to monitor an observed defect to the main unit.	Yes	No.
Manufacturer supervision during transformer or *Phase Angle Regulator* , or sub-component thereof, disassembly/erection	If repair warranty is of one year or longer.	If owner chooses to have a warranty of less than one year.
Removals and re-assembly of enclosures/ walls/ support structures not directly attached to the transformer tank to permit transformer or *Phase Angle Regulator* handling.	No.	Excluded.
Legal action with respect to suing manufacturers or contractors for design defects or errors that cause damage to the equipment including contracting third party consultants with respect to the legal action.	Yes. Costs and claim awards shall be shared proportionally to the shared cost ratio for both *Parties*.	No.
Correction of other defects/deficiencies related to changes in the transformer or *Phase Angle Regulator* arising from de-ratings or changes in performance expectations (e.g. installation of new lightning arresters if they are required to	No.	Excluded.

Work	Shared Cost	Exclusions
provide increased overvoltage protection margin for a transformer that has had its lightning impulse level de-rated)		
Repair of damage or replacement of shared cost equipment and the associated control, monitoring and protective devices as a result of the breach of station security or vandalism.	No.	Excluded.
Failures resulting from unscheduled parallel flows of electric energy across the *Interconnection Facilities.*	Yes.	No.
End of Life Replacement	Yes.	No.

SCHEDULE "C": Contacts and Business Telephone Numbers

REDACTED

SCHEDULE "D" Official Mailing Addresses for Legal and Corporate Notices

HYDRO ONE NETWORKS INC.

Secretary
483 Bay Street
North Tower, 15th Floor
Toronto, Ontario
M5G 2P5

Facsimile: (416) 345-6240

With a copy to:

General Counsel
483 Bay Street
North Tower, 15th Floor
Toronto, Ontario
M5G 2P5

Phone: (416) 345 - 6301
Facsimile: (416) 345-6240
E-mail: joe.agostino@HydroOne.com

INTERNATIONAL TRANSMISSION COMPANY

Vice President & General Counsel, Utility Operations
27175 Energy Way
Novi, Michigan 48377

Phone: (248) 946-3000
Facsimile: (248) 946-3552
E-mail: csoneral@itctransco.com

SCHEDULE "E": Communications, Operating Organizations and Evacuation Procedures

REDACTED

SCHEDULE "F" **Protection for Work and Terminology to be Used for Work Protection**

REDACTED

SCHEDULE "G" Technical Characteristics of *Interconnection Facilities* (Line, Transformer, and *Phase Angle Regulator* Ratings and Description of Protection Systems)

REDACTED

SCHEDULE "H" Outage Coordination Process

ITC Transmission and Hydro One Networks have established the following process for reporting and scheduling outages.

Applications to ITC:

1. Hydro One Operating Planning will email the "Customer Report for ITC" to ITC Outage Coordination every Thursday. This spreadsheet contains outages that are scheduled to occur in the following six month period. This report is for informational purposes only.

2. Hydro One Operating Planning will process an outage. Hydro One will contact ITC Outage Coordination by phone and/or email to confirm and discuss availability (minimum 10 business days notice).

3. ITC Outage Coordination then processes the outage. ITC will send a written notice to Hydro One Operating Planning (by e-mail/fax) confirming that the outage has been processed.

4. If "Protection/Supporting Guarantee" is required, Hydro One Operating Planning will send an "Outage Information Form" by email to ITC Outage Coordination. ITC will send a follow up e-mail to Hydro One confirming that the details on the form are correct. After the details in the form are confirmed, there will generally be no further communication between ITC Outage Coordination and Hydro One Operating Planning. Exceptions are, but are not limited to, when an outage is revised for any reason and/or is denied by MISO and/or IESO.

Applications to Hydro One:

1. ITC Outage Coordination will process an outage. ITC will contact Hydro One Operating Planning by phone and/or email to confirm and discuss availability (minimum 15 business days notice).

2. Hydro One Operating Planning then processes the outage. Hydro One will send a written notice to ITC Outage Coordination (by e-mail/fax) confirming that the outage has been processed.

3. If "Protection/Supporting Guarantee" is required, ITC Outage Coordination will provide this information in the initial written notice to Hydro One Operating Planning. Hydro One Operating Planning will then send an "Outage Information Form" by email to ITC Outage Coordination. ITC will send a follow up e-mail to Hydro One confirming that the details on the form are correct. After the details in the form are confirmed, there will generally be no further communication between ITC Outage Coordination and Hydro One Operating Planning. Exceptions are, but are not limited to, when an outage is revised for any reason and/or is denied by MISO and/or IESO.

SCHEDULE "I": Operating Principles for the Phase Angle Regulators

For the purposes of this Schedule "I" and the PAR SOP, the following terms shall have the following meanings:

Circuit Target Flow(s) means the desired power flow (MW) on a specific circuit(s) of the Interface.

Control Band means the maximum allowable Interface Deviation of ± 200 MW, maintained within practical considerations.

Interface Deviation means the difference between the Interface Flow and Interface Schedule.

Interface means, collectively, the four circuits that comprise the Ontario-Michigan interconnection (J5D, L4D, L51D, B3N).

IESO means the Independent Electricity System Operator established under Part II of the *Electricity Act 1998* (Ontario) that directs the operations of Hydro One Networks' transmission system.

Interface Flow means the power flow (MW) on the Interface, including a net direction.

Interface Schedule means the net total of the approved interchange across the Interface, as well as emergency interchange implemented by the MISO and the IESO.

Local Interface Facilities means transmission facilities in Michigan or Ontario that meet any of the following criteria:

a) facilities that directly comprise the Interface, or;

b) equipment at the terminal stations of the Interface, or;

c) transmission circuits that emanate from the terminal stations of the Interface, or;

d) other facilities associated with the Interface that are directly and significantly affected by the distribution of flows between the circuits that comprise the Interface, as noted below:

- Ontario - transmission circuits that emanate from Lauzon TS
- Michigan - Transmission facilities in the eastern Detroit / Port Huron area(s).

Max Tap means the Interface (PARs collectively) has reached the maximum ability to control flow, in either direction.

U.S. Controlling Entity means the entity that has functional control over the Interface facilities in Michigan.

1. The PARs shall be operated in accordance with the following operating principles:

- The Interface Deviation is maintained to the maximum extent practical considering operational feasibility, safety, equipment limitations and regulatory and statutory requirements; and
- The System Operating Limit(s) ("SOLs") of the Interface and Local Interface Facilities are respected; and
- The Interface Deviation may exceed the Control Band as necessary to prevent or resolve declared emergency operating situations as specified in Sections 3 and 5, provided that normal PAR operations are resumed as soon as practical; and
- When a disagreement occurs over operating conditions or limits for the Interconnection Facilities, the most restrictive approach shall apply.

2. The PARs will normally be adjusted as necessary to maintain the Interface Deviation within the Control Band, within practical considerations.

3. The PARs are to be operated such that the Interface Deviation is maintained within the Control Band to the maximum extent practical, while staying within the SOLs of the Interface and Local Interface Facilities. Proactive adjustments will be implemented when the Interface Deviation is reasonably expected to exceed the Control Band. The Circuit Target Flows between the individual circuits will be optimized such that the Interface Deviation is maintained within the Control Band for as long as possible before reaching Max Tap.

In order to prevent an Emergency in the balancing authority areas of the U.S. Controlling Entity or IESO, the PARs may be adjusted such that the Interface Deviation exceeds the Control Band provided that other actions are utilized first, time permitting, including re-dispatch, curtailing interchange transactions, Transmission Loading Relief ("TLR"), re-configuration, etc. while respecting SOLs on the Local Interface Facilities.

4. When the Interface reaches Max Tap, the Interface will be controlled to its applicable interface limits. Actions (e.g. TLR's, generation re-dispatch, re-configuration, etc.) will not be taken solely to return the Interface Deviation to within the regulating capability of the PARs.

5. The U.S Controlling Entity and IESO shall discuss and agree on the Interface Flows, Circuit Target Flows, PAR Target Settings, including the PAR setting implementation time if different from the normal interchange ramping period taking into consideration operational constraints identified by ITC and Hydro One, and shall issue the jointly agreed upon operating instructions to ITC and Hydro One.

Operating instructions will be implemented by ITC and Hydro One unless such actions will exceed SOLs of the Interface or Local Interface Facilities, or violate safety, regulatory or statutory requirement(s). If unable to implement any operating instruction, ITC or Hydro One will promptly notify the other, and the U.S Controlling Entity and IESO as appropriate.

6. All appropriate actions will be implemented, time permitting, including full utilization of the PARs, generation re-dispatch, TLR and re-configuration in order to resolve a Declared Emergency (an emergency declared by the applicable Reliability Coordinator) within the balancing authority areas of the U.S. Controlling Entity or IESO, or a Declared Emergency of an entity outside of those balancing authority areas, if such action contributes to relieving the condition, as set forth in the following Sections 6.a and 6.b:

a. If the emergency is within the balancing authority areas of the U.S. Controlling Entity or IESO, the PARs may be adjusted up to Max Tap utilizing emergency thermal limits as appropriate. If and when sufficient relief has been effected, or when the condition has been corrected such that emergency PAR operations are no longer required, the PARs shall be returned to normal operations, as soon as practical.

   If emergencies are declared in the balancing authority areas of both the U.S. Controlling Entity and IESO, tap positions for the PARs shall be set in the position(s) that best mitigates or assists with the mitigation of, the overall scope of the emergencies in both areas and that achieves, to the extent practical, a fair sharing of relief requirements between the areas.

b. If the emergency is outside of the balancing authority areas of the U.S. Controlling Entity and IESO, the PARs may be operated to assist with the emergency under the following conditions:
   (i) The requesting entity has taken all mitigating steps except voltage reduction and shedding of firm load; and
   (ii) PAR operation being considered to assist another entity will not result in voltage reduction, firm load shedding or exceeding an SOL or an Interconnection Reliability Operating Limit ("IROL") in Michigan or Ontario; and
   (iii) The entity makes every available effort following the implementation of emergency PAR operations to quickly restore their system to a position such that normal PAR operations can be resumed.

   The PARs shall be considered as one of the control actions available to assist the affected system, and may be adjusted up to Max Tap utilizing emergency limits as appropriate. The type of assistance shall be agreed upon and directed by the U.S. Controlling Entity and the IESO.

   If and when sufficient relief has been effected, or when the condition has been corrected such that emergency PAR operations are no longer required, the PARs shall be returned to normal operations as soon as practical.

7. If the U.S. Controlling Entity and IESO agree to suspend operation of the PARs as a result of unforeseen operational or market outcomes within their service areas, they shall so inform ITC and Hydro One and the PARs will be bypassed or operated at or near neutral tap, with no attempt being made to control to the Interface Schedule, until the U.S. Controlling Entity and IESO provide additional operating instructions to ITC and Hydro One.

8. Reactive transfers on the Michigan-Ontario interface shall be arranged in accordance with the then currently applicable Michigan-Ontario Interface Voltage Control Procedure in place between the U.S. Controlling Entity and IESO.

TAB 3

MISO -IESO

Operating Instruction

MISO-IESO-C02-R0

Effective Date: August 8, 2011

Review Date: August 8, 2014

Expiry Date: N/A

PUBLIC

Operation of the Michigan-Ontario Tie Lines and Associated Facilities

1.0 INTRODUCTION

Michigan and Ontario are interconnected by four synchronous tie lines, which are the J5D, L51D, L4D, and B3N lines, and associated facilities, including the Phase Angle Regulating transformers ("PARs") located on Lines J5D, L51D and L4D in Ontario and on Line B3N in Michigan (the "Interconnection Facilities").

Hydro One Networks Inc. ("Hydro One") owns and operates the Interconnection Facilities located in Ontario. The Independent Electricity System Operator ("IESO") is the Reliability Coordinator, Balancing Authority and Transmission Operator in Ontario. IESO directs the operation of the Interconnection Facilities in Ontario.

International Transmission Company, dba ITC Transmission, ("ITC") owns and operates the Interconnection Facilities located in Michigan. ITC is the Transmission Operator of its transmission equipment in Michigan. The Midwest Independent Transmission System Operator, Inc. ("MISO") is the Reliability Coordinator and Balancing Authority of the ITC service area in Michigan, including Interconnection Facilities, and will direct actions regarding the Michigan-Ontario interconnection facilities in Michigan.

Operation of the Interconnection Facilities shall be in conformance with North American Electric Reliability Corporation ("NERC") or Regional Standards and any other regulatory and statutory requirement(s).

This operating instruction sets forth instructions related to the operation of the Interconnection Facilities pursuant to the provisions of the "Coordination Agreement By and Between Midwest Independent Transmission System Operator, Inc. (Midwest ISO) and Independent Electricity System Operator (IESO)" (the "Coordination Agreement"). MISO and IESO will jointly coordinate operation of the Interconnection Facilities in accordance with this document regardless of the location or the status at any time of any of the Interconnection Facilities.

2.0 DEFINITIONS

Circuit Target Flow(s) – The desired power flow (MW) on a specific circuit(s) of the Interface.

Control Band – The maximum targeted Interface Deviation of ± 200 MW, maintained within practical considerations.

Interface Deviation – The difference between the Interface Flow and the Interface Schedule.

Interface – Collectively, the four circuits that comprise the Ontario-Michigan interconnection (J5D, L4D, L51D, B3N).

Interface Control Mode(s)

Regulated Mode – The Interface is within operational limitations and retains the ability to maintain the Interface Deviation within the Control Band, as described in Section 3.4.1

Non-Regulated Mode – The Interface has reached Max Tap and the Interface Deviation is exceeding or expected to exceed the Control Band.

Bypass Mode – The Interface is in the Bypass Mode when the PARs are either:

a) Physically bypassed or;

b) In-service PARs are at or near neutral tap and no attempt is being made to control to the Interface Schedule. The PARs may be adjusted as necessary to respect System Operating Limits ("SOLs") of the Interface and Local Interface Facilities.

Interface Flow – The power flow (MW) on the Interface, including a net direction.

Interface Schedule - The net total of the approved interchange across the Interface, as well as emergency interchange implemented by MISO and the IESO.

Local Interface Facilities – MISO or IESO transmission facilities that meet any of the following criteria:

a) Facilities that directly comprise the Interface, or;

b) Equipment at the terminal stations of the Interface, or;

c) Transmission circuits that emanate from the terminal stations of the Interface, or;

d) Other facilities associated with the Interface that are directly and significantly affected by the distribution of flows between the circuits that comprise the Interface, as noted below:

- IESO - transmission circuits that emanate from Lauzon TS
- MISO - Transmission facilities in the eastern Detroit / Port Huron area(s).

Max Tap – The Interface (PARs collectively) has reached the maximum ability to control flow, in either direction.

3.0 PAR OPERATIONS

MISO and the IESO mutually agree to operate the PARs in order to meet the following operating principles.

The PARs shall be operated such that:

- The Interface Deviation is maintained within the Control Band to the maximum extent practical considering operational feasibility, safety, equipment limitations and regulatory and statutory requirements, and;
- System Operating Limit(s) of the Interface and Local Interface Facilities are respected, and;
- The Interface Deviation may exceed the Control Band as necessary to prevent or resolve declared emergency operating situations as specified in Sections 3.4 and 3.5, provided that normal PAR operations are resumed as soon as practical; and;
- When a disagreement occurs over operating conditions or limits for the Interconnection Facilities, the most restrictive approach shall apply.

3.1 Operational Planning

3.1.1 The facility ratings are determined and provided by the asset owners. The conditions under which these ratings apply (e.g. ambient temperature, equipment temperature and available/unavailable cooling, equipment loading, wind speed) shall be specified by ITC and Hydro One.

3.2 Scheduling

3.2.1 Normal scheduling limits will reflect all known restrictions, outages or deratings to equipment that form part of the Interface.

3.2.2 Scheduling limits will normally assume that the PARs are (or will be) able to control the Interface Deviation within the Control Band. During periods when the PARs are unable, or anticipated to be unable to acceptably regulate the Interface Deviation, scheduling limits shall account for expected loop flows.

3.2.3 The IESO and MISO shall jointly approve and confirm the MISO-IESO schedules (on the Michigan interface) prior to schedule implementation.

3.3 Market Operations

3.3.1 Scheduling limits in the day-ahead or future operational planning time frame will normally assume that the PARs are (or will be) able to control the Interface Deviation within the Control Band. During periods when the PARs are projected to be unable to acceptably regulate the Interface Deviation, forecasts of tie line flows shall account for anticipated loop flows. As required, MISO and the IESO agree to discuss day-ahead operations and share their assumptions when determining these expected flows.

3.4 Real-Time Operations - Normal

3.4.1 The PARs will normally be adjusted as necessary to maintain the Interface in Regulated Mode.

3.4.2 In Regulated Mode, the PARs are to be operated such that the Interface Deviation is maintained within the Control Band to the maximum extent practical, while staying within the SOLs of the Interface and Local Interface Facilities. Proactive adjustments will be implemented when the Interface Deviation is reasonably expected to exceed the Control Band.

The Circuit Target Flows between the individual circuits will be optimized such that the Interface remains in the Regulated Mode for as long as possible before reaching Max Tap.

Prevention of an emergency

In order to prevent an emergency in MISO or Ontario, PARs may be adjusted such that the Interface Deviation exceeds the Control Band providing other actions are utilized first, time permitting. Actions that are to be implemented include re-dispatch, curtailing interchange transactions, TLR, re-configuration, etc. while respecting SOLs on the Local Interface Facilities.

3.4.3 The IESO shall set the IDC status flag for the Michigan-Ontario Interface to Regulated, Non-Regulated or Bypass Mode, reflecting the ability of the PARs to maintain the Interface Deviation within the Control Band. Whenever possible, this flag should be set in sufficient time to allow other Reliability Coordinators to understand the impact of the PARs and incorporate those impacts on their operation (i.e. TLRs).

3.4.4 In Non-Regulated Mode, the interface will be controlled to its applicable interface limits. Actions (e.g. TLR's, generation re-dispatch, re-configuration, etc.) will not be taken solely to return the Interface Deviation to within the regulating capability of the PARs.

MISO and the IESO shall discuss and agree on the Interface Flows, Circuit Target Flows, PAR Target Settings, including the PAR setting implementation time if different from the normal interchange ramping period taking into consideration operational constraints identified by ITC and Hydro One.

MISO and the IESO understand that operating instructions will be implemented by ITC and Hydro One unless such actions will exceed SOLs of the Interface or Local Interface Facilities, or violate safety, regulatory or statutory requirement(s). If unable to implement any operating instruction, ITC or Hydro One will promptly notify the other and MISO and the IESO.

3.5 Emergency Operations

All appropriate actions will be implemented, time permitting, including full utilization of the PARs, generation re-dispatch, TLR and re-configuration in order to resolve a declared emergency within MISO or Ontario, or a declared emergency of an entity outside of MISO and Ontario, if such action contributes to relieving the condition, as set forth in Sections 3.5.1 and 3.5.2.

3.5.1 If the emergency is within MISO or Ontario, the PARs may be adjusted up to Max Tap utilizing emergency thermal limits as appropriate. If and when sufficient relief has been effected, or when the condition has been corrected such that emergency PAR operations are no longer required, the PARs shall be returned to normal operations, as soon as practical.

If emergencies are declared in both MISO and Ontario, tap positions for the PARs shall be set in the position(s) that best mitigates, or assists with the mitigation of, the overall scope of the

emergencies in both areas and that achieves, to the extent practical, a fair sharing of relief requirements between the areas.

3.5.2 If the emergency is outside of MISO and Ontario, the PARs may be operated to assist with the emergency under the following conditions:

1. The requesting entity has taken all mitigating steps except voltage reduction and shedding of firm load, and;
2. PAR operation being considered to assist another entity will not result in voltage reduction, firm load shedding or exceeding an SOL or an IROL in MISO or Ontario, and;
3. The entity makes every available effort following the implementation of emergency PAR operations to quickly restore their system to a position such that normal PAR operations can be resumed.

The PARs shall be considered as one of the control actions available to assist the affected system, and may be adjusted up to Max Tap utilizing emergency limits as appropriate. The type of assistance shall be agreed upon and directed by MISO and the IESO.

If and when sufficient relief has been effected, or when the condition has been corrected such that emergency PAR operations are no longer required, the PARs shall be returned to normal operations as soon as practical.

3.6 Voltage Control

Reactive transfers on the Michigan-Ontario interface shall be arranged in accordance with instruction MISO-IESO-C03 Michigan-Ontario Interface Voltage Control Procedure.

3.7 Communications

Communications will be via a telephone conference ("blast call"), as outlined in Appendix A, Table A.1. Any party identified in Appendix A may initiate a call if flows are causing or are anticipated to cause a reliability or operational concern.

4.0 COORDINATION OF OPERATIONS

MISO and the IESO will coordinate the overall operation of the PARs. Given the change in electrical flows that will occur when the PARs are placed in Regulated Mode, it is recognized that normal operation of the PARs may result in unforeseen operational or market outcomes within MISO or the IESO. Depending on the nature of the event, the most appropriate or only mitigating action may be to suspend normal operation of the PARs, i.e. change the Interface Control Mode from Regulated Mode to Bypass Mode.

Suspension of normal PAR operation:

- Will only occur with the mutual consent of MISO and the IESO, and such consent shall not be unreasonably withheld, and;
- Will only occur as a last resort after all other reasonable efforts have been made to resolve the unforeseen operational or market outcomes, and;
- In the case of anomalous market outcomes in either jurisdiction, will only occur after consultation with other affected markets

If normal operation of the PARs is suspended, the PARs will be operated in the Bypass Mode.

Normal operations of the PARs will remain suspended until mutual agreement is reached to restore them to Regulated Mode or regulatory action occurs and a subsequent resolution plan developed and implemented.

In all cases, MISO and the IESO will properly coordinate and implement all actions as as soon as practical, with the goal of resuming normal operation of the PARs as quickly as possible.

5.0 DISPUTE RESOLUTION

5.1 Real-Time Operations

MISO and the IESO agree to make reasonable attempts to accommodate requested tap changes. In the event that MISO and the IESO are unable to agree on an appropriate action in real-time, shift staff should not spend an inordinate amount of time discussing conflicts.

In the event of a tap position disagreement, the tap position that would result in the Interface Flow equal to the Interface Schedule should be the default position, unless this will cause a reliability concern. On-shift staff should make reasonable attempts to accommodate requested tap changes unless the proposed action will cause undue equipment or safety concerns.

The dispute will be reviewed by the management of parties during the next business day. If necessary, changes will be implemented to mitigate future similar disputes.

5.2 Operational Coordination

In the event that mutual consent cannot be reached as described in Section 4 (Coordination of Operations) of this operating instruction, MISO and the IESO agree to:

1) Refer the issue to their respective market monitoring units for recommendation, and;
2) Refer the dispute to the Coordination Committee for resolution per Section 12 of the Coordination Agreement.

If either MISO or the IESO market monitoring units returns a recommendation that includes the suspension of normal operation of the PARs, the change in operations will be implemented per Section 4.

6.0 DATA AND EXCHANGE INFORMATION

The parties agree to provide in a timely manner to the asset owners data and information requested by them to comply with regulatory requirements or to aid in the analysis of emergency operations, equipment failures, or disturbances.

In the event the PARs are operated in the emergency operating state, the parties agree that each event will be reviewed and a report prepared for the MISO - IESO Coordinating Committee. These reports will be shared in a timely manner with the asset owners.

7.0 REVISION HISTORY

Revision No.	Reason for Issue	Revised by:	Issue Date	Effective Date
MISO-IESO-C02-R0	Creation of Operation of the Michigan-Ontario Tie Lines and Associated Facilities Procedure	Coordinating Committee	08-Aug-2011	08-Aug-2011

Approved by the Coordination Committee:

MidwestISO

Dated: 8/8/11

ieso
Power to Ontario.
On Demand.

Dated: August 8, 2011

APPENDIX A:

Communications and Operating Procedures

Table A.1:

Initiator (tap change):	**IESO**	**MISO**	**ITC - TO**
Originating entity contacts (single call):	MISO ITC-TO ITC-BA (MECS) HONI	IESO ITC-TO ITC-BA (MECS) HONI	IESO MISO ITC-BA (MECS) HONI

Contact Information:

IESO	- Markets (Schedules)	[redacted]
	- System (Reliability)	[redacted]
MISO	- East Reliability RC	[redacted]
ITC-TO	- Senior Transmission System Coordinator	[redacted]
ITC-BA (MECS)	- Senior BA Controller	[redacted]
Hydro One Networks	- Sector 1 Controller	[redacted]

Day-Ahead Planning/Scheduling (not included in Real-Time Blast Call):

IESO	- Market Forecasts & Integration	[redacted]
MISO	-Operations Engineering	[redacted]
	- Scheduling	[redacted]

APPENDIX B:

PAR Operations Examples

The following table provides examples of PAR operation under a number of different scenarios. These scenarios illustrate application of PAR operations described in Sections 3.4 and 3.5.

Each example shows the difference between flow and schedule on the Michigan – Ontario interface before any action is taken and the anticipated difference following tap movement. In some cases, these schedule/flow differences are used to determine the appropriate course of action.

The 'Action' column describes the response to the scenario, including any considerations. In some instances, a decision point is based on a time period. This is a nominal value and may differ in any given event according to MISO and the IESO's judgment based upon actual operational conditions.

Table B.1:

Local Interface Facility SOL		
Interface Deviation Before Any Action	**Anticipated Interface Deviation After Tap Change**	**Action**
Any	+/- 200 MW	• Adjust PARs on affected circuits to prevent/relieve SOL

Prevent an Emergency in MISO or Ontario		
Interface Deviation Before Any Action	**Anticipated Interface Deviation After Tap Change**	**Action**
Any	Any	• Utilize other actions prior to using the PARS , provided there is enough time • Other actions include re-dispatch, curtailing interchange transactions, TLR, and reconfiguration • Adjust PARS if other actions have been used or won't resolve the emerging problem quickly enough • Ensure Local Interface Facility SOLs respected

Declared Emergency in MISO or Ontario		
Interface Deviation Before Any Action	**Anticipated Interface Deviation After Tap Change**	**Action**
Any	Any	• Utilize all appropriate actions including adjusting the PARS • May adjust taps on PARs up to Max Tap • May use emergency thermal limits on the interface • Return to normal PAR operation as soon as practicable

Declared Emergency in both MISO and Ontario		
Interface Deviation Before Any Action	**Anticipated Interface Deviation After Tap Change**	**Action**
Any	Any	• Utilize all appropriate actions including adjusting the PARS • May adjust taps on PARs up to Max Tap • May use emergency thermal limits on the interface • Use tap position that best mitigates the overall emergency and shares relief between the two areas, to the extent practical

Declared Emergency Outside MISO and Ontario		
Flow/Schedule Δ Before Any Action	**Anticipated Flow/Schedule Δ After Tap Change**	**Action**
Any	Any	• If the external entity requesting assistance has taken all steps up to voltage reduction and firm load shedding *and*, • Use of PARs won't result in the need for voltage reduction or firm load shedding or cause an SOL or IROL exceedance in MISO or Ontario then: ○ Use all appropriate actions including adjusting the PARS up to Max Tap • Note that requesting area must make every effort to quickly restore their system to the point where the PARS can be returned to normal operation

TAB 4

Article 3. The facilities described in Article 2 above, including the phase-shifting transformers in the B3N circuit, shall be designed and operated in compliance with all policies and standards of the North American Electric Reliability Corporation (NERC) or its successor, Regional Entities, or NERC-Registered Reliability Coordinators, as appropriate, on such terms as expressed therein, and as such criteria, standards, and guides may be amended from time to time. ITC shall operate the phase-shifting transformers in B3N circuit consistent with the principles set forth in Schedule I of the Amended and Restated Interconnection Facilities Agreement dated August 8, 2011 ("IFA") between ITC and Hydro One Networks, Inc. which has been filed and made a part of this docket. Thus, under normal system conditions, ITC shall operate the phase-shifting transformers in the B3N circuit such that the electrical flow on the Michigan-Ontario interface will match Michigan-Ontario scheduled transactions across the interface to the maximum extent possible considering operational feasibility, safety, equipment limitations and regulatory and statutory requirements. The phase-shifting transformers in the B3N circuit may be operated without electrical flow matching scheduled transactions across the interface 1) if anomalous market results occur in the market of the regional transmission organization that has functional control over the transformers or in Ontario, 2) as necessary to respect system operating limits within Michigan or Ontario, or 3) in order to prevent or resolve declared emergency operating situations consistent with NERC standards and the provisions of the above-referenced Schedule I of the IFA.

Article 9. ITC shall arrange for the installation and maintenance of appropriate metering equipment to record the hourly flow of all electric energy transmitted between the United States and Canada over the facilities authorized herein. ITC shall make, and preserve for a period of seven (7) years, full and complete records with respect to all electric energy transmitted between the United States and Canada over those facilities. ITC shall complete and file with the Energy Information Administration ("EIA") the sections of EIA's Form OE-781R relating to the Transmission Owner's role, as assigned to ITC by EIA.

Article 10. Neither this permit nor the facilities covered by this permit, or any part thereof, shall be transferable or assignable, except in the event of the involuntary transfer of the facilities by the operation of law. In the case of such an involuntary transfer, this permit shall continue in effect for a period of 60 days and then shall terminate unless an application for a new permit pursuant to Title 10, Code of Federal Regulations, section 205.323, has been received by DOE. Upon receipt by DOE of such an application, this existing permit shall continue in effect pending a decision on the new application. During this decision period, the facilities authorized herein shall remain substantially the same as before the transfer. Notwithstanding the foregoing, functional control of the facilities covered by this permit may be assigned to an FERC-approved Regional Transmission Organization ("RTO") upon notice to the Office of Fossil Energy and the filing of an agreement whereby the RTO commits to comply with all applicable provisions of this permit.