

**BYLAW NO. 2002-805
OF THE
TOWN OF TWO HILLS, ALBERTA
related to the
ELECTRIC DISTRIBUTION SYSTEM
FRANCHISE AGREEMENT**

A Bylaw of the Town of Two Hills (the "Municipality") to authorize the Mayor and Chief Administrative Officer to enter into an agreement granting ATCO Electric Ltd., (the Company"), the right to provide distribution access services within the Town of Two Hills.

WHEREAS pursuant to the provisions of the Municipal Government Act S.A. 1994 c. M-26.1, as amended (the "Act"), the Town of Two Hills desires to grant and ATCO Electric Ltd. desires to obtain, an exclusive franchise to provide distribution access services within the Town of Two Hills for a period of fifteen (15) years subject to the right of renewal as set forth in the said agreement and in the said Act;

WHEREAS the Council of the Town of Two Hills and ATCO Electric Ltd. have agreed to enter into an Electric Distribution System Franchise Agreement (the "Agreement"), in the form annexed hereto;

WHEREAS it is deemed that the Agreement would be to the general benefit of the consumers within the Town of Two Hills.

NOW THEREFORE the Council of the Town of Two Hills enacts as follows:

- 1) THAT the Electric Distribution System Franchise Agreement, a copy of which is annexed hereto as Schedule "A", be and the same is hereby ratified, confirmed and approved, and the Mayor and Chief Administrative Officer are hereby authorized to enter into the Electric Distribution System Franchise Agreement for and on behalf of the Town of Two Hills, and the Chief Administrative Officer is hereby authorized to affix thereto the corporate seal of the Town of Two Hills.
- 2) THAT the Electric Distribution System Franchise Agreement annexed hereto as Schedule "A" is hereby incorporated in, and made part of, this Bylaw.
- 3) THAT the Council consents to the exercise by ATCO Electric Ltd. within the Town of Two Hills of any of the powers given to ATCO Electric Ltd. by the Water, Gas and Electric Companies Act, R.S.A. 1980 c. W-4, as amended.
- 4) THAT this Bylaw shall come into force upon the Electric Distribution System Franchise Agreement being approved by the Alberta Energy and Utilities Board and upon being given third reading and finally passed.

Read a First time in Council assembled this 30th day of September, 2002.


Mayor


Chief Administrative Officer

Read a Second time in Council assembled this 11th day of December , 2002.

Read a Third time in Council assembled and

Passed this 11th day of December , 2002.


Mayor


Chief Administrative Officer

ELECTRIC DISTRIBUTION SYSTEM FRANCHISE AGREEMENT

TOWN OF TWO HILLS

Date: JANUARY 1, 2003

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ELECTRIC DISTRIBUTION SYSTEM FRANCHISE AGREEMENT

THIS AGREEMENT made effective the 1 day of January, 2003. *AP*

BETWEEN:

THE TOWN OF TWO HILLS, a Municipal Corporation in the
Province of Alberta (the "Municipality")

OF THE FIRST PART

- and -

ATCO ELECTRIC LTD., a body corporate and public utility with
its head office at the Town of Edmonton, in the Province of Alberta
(the "Company")

OF THE SECOND PART

WHEREAS the Municipality desires to grant and the Company desires to obtain an
exclusive franchise to provide distribution access service within the Municipality on the terms and
conditions herein contained;

NOW THEREFORE in consideration of the mutual covenants and promises herein
contained, the parties hereby agree as follows:


1) DEFINITIONS

Unless otherwise expressly provided in this Agreement, the words, phrases and expressions in this
Agreement shall have the meanings attributed to them as follows:

- a) "Act" means the Electric Utilities Act (Alberta) as amended;
- b) "Board" means the Alberta Energy and Utilities Board as established under the
Alberta Energy and Utilities Board Act (Alberta), as amended;
- c) "Company" means the party of the second part to this Agreement and includes its
successors and assigns;
- d) "Construct" means and includes establish, construct, reconstruct, upgrade or extend
any part of the existing Distribution System or proposed Distribution System;
- e) "Consumer" means any individual, group of individuals, firm or body corporate,
including the Municipality, with premises or facilities within the boundaries of the
Municipality including any areas annexed by the Municipality from time to time that
is provided with Distribution Access Service by the Company pursuant to the
Company's Distribution Tariff;

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- f) **"Core Services"** means all those services set forth in Schedule "A";
- × g) **"Distribution Access Service"** means Distribution Access Service described in the Company's Distribution Tariff;
- h) **"Distribution System"** means any facilities owned by the Company used to provide Distribution Access Service within the boundaries of the Municipality, and without limiting the generality of the foregoing, shall include street and decorative lighting, where applicable, poles, fixtures, luminaires, guys, hardware, insulators, wires, conductors, cables, ducts, meters, transformers, fences, vaults and connection pedestals, excluding any transmission facilities as defined in the Act;
- × i) **"Distribution Tariff"** means the Distribution Tariff prepared by the Company and approved by the Board on an interim or final basis, as the case may be, but excludes any riders or changes that relate to pool price deferral account amounts;
- j) **"Extra Services"** means those services set forth in Schedule "B" that are requested by the Municipality on behalf of the Consumer and provided by the Company in accordance with Article 7;
- k) **"Initial Term"** means the initial term of this Agreement set out in Article 2;
- l) **"Maintain"** means to maintain, keep in good repair or overhaul any part of the Distribution System;
- m) **"Major Work"** means any line work to Construct or Maintain the Distribution System that costs more than Fifty Thousand (\$50,000) Dollars;
- n) **"Municipality"** means the party of the first part to this Agreement or, where the context implies an area, the area within the boundaries of the Municipality as altered from time to time but does not include an increase in area as specified in Article 12(i);
- × o) **"Municipal Property"** means all property, including lands and buildings, owned, controlled or managed by the Municipality within the Municipality;
- p) **"Operate"** means to operate, interrupt or restore any part of the Distribution System in a safe and reliable manner;
- q) **"Term"** means the Initial Term of this Agreement set out in Article 2 including any renewal pursuant to Article 3;

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- r) "Terms and Conditions" means the terms and conditions contained within the Distribution Tariff in effect from time to time for the Company as approved by the Board;
- s) "Wire Services Provider" shall have the meaning ascribed to it in the Act and the Roles, Relationships and Responsibilities Regulation, AR 86/2000;
- t) "Work" means any work to Construct or Maintain the Distribution System.

2) INITIAL TERM

This Agreement shall be for an initial term of Fifteen (15) years, commencing on the 1 day of January, 2003. *MS per*

Notwithstanding the commencement of the Initial Term, the franchise fee and tax provisions set forth in Article 5 and Article 8 shall not take effect until January 1, 2003

3) RENEWAL

- a) Following the expiration of the Initial Term, this Agreement shall be renewed one time for a further period of 5 years, provided the Company gives written notice to the Municipality not less than twelve (12) months prior to the expiration of the Initial Term of its intention to renew the Agreement and the Municipality agrees in writing to the renewal not less than six (6) months prior to the expiration of the Initial Term.
- b) During the first year following the expiration of the Initial Term all the rights and obligations of the parties under this Agreement shall continue to be in effect.
- c) At any time following the expiration of the Initial Term, if the Municipality has not provided notice to the Company to exercise its right under Article 10 to require the Company to sell the Distribution System, either party may submit any items in dispute pertaining to the renewal of this Agreement or to a new agreement, as the case may be, to binding arbitration by the Board.
- d) Commencing one year following the expiration of the Initial Term, unless either party has invoked the right to arbitration referred to in subparagraph (c), this Agreement shall continue to be in effect but shall be amended to provide for the following:
 - i) the franchise fee percentage used to calculate the franchise fee payable by the Company under Article 5 shall be reduced to fifty (50%) percent of the average annual franchise fee percentage used to calculate the franchise fee

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paid by the Company to the Municipality for the previous five (5) calendar years of the Agreement; and

- ii) the costs of any relocations requested by the Municipality pursuant to Article 15 shall be paid by the Municipality.

4) GRANT OF FRANCHISE

- a) Subject to the terms and conditions hereof, the Municipality hereby grants to the Company the exclusive right within the Municipality:
 - i) to Construct, Operate, and Maintain the Distribution System; and
 - ii) to use designated portions of roads, rights-of-way, and other lands owned, controlled or managed by the Municipality necessary to Construct, Operate and Maintain the Distribution System, including the necessary removal, trimming of trees, shrubs or bushes or any parts thereof.

This grant shall not preclude the Municipality from providing wire services to municipally owned facilities where stand alone generation is provided on site or immediately adjacent sites excepting road allowances. Such services are to be provided by the Municipality directly and not by any other third party Wire Services Provider.

- b) The Company agrees to:
 - i) bear the full responsibility of an owner of an electric distribution system and to ensure all services provided pursuant to this Agreement are in accordance with the Distribution Tariff, insofar as applicable;
 - ii) Construct, Operate and Maintain the Distribution System;
 - iii) use designated portions of roads, rights-of-way, and other lands including other lands owned, controlled or managed by the Municipality necessary to Construct, Operate and Maintain the Distribution System, including the necessary removal, trimming of trees, shrubs or bushes or any parts thereof;
 - iv) use the Municipality's roads, rights-of-way and other Municipal Property granted hereunder solely for the purpose of providing Distribution Access Service and any other service contemplated by this Agreement.

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5) **FRANCHISE FEE**

Calculation of Franchise Fee

- a) In consideration of the grant of franchise and the mutual covenants herein, the Company agrees to pay to the Municipality a franchise fee. For each calendar year the franchise fee will be calculated as a percentage of the Company's actual gross revenue in that year from the Distribution Tariff rates charged for Distribution Access Service within the Municipality. For the first calendar year of the Term of this Agreement, the franchise fee percentage shall be Two and Three Quarters (2.75%) percent.

By no later than October 1 of each year, the Company shall: (i) advise the Municipality in writing of the gross revenues that were derived from the Distribution Tariff within the existing boundaries of the Municipality for the prior calendar year; and (ii) with the Municipality's assistance, provide in writing an estimate of gross revenues to be derived from the Distribution Tariff within the boundaries of the Municipality for the next calendar year.

By no later than December 1 of each year, the Municipality shall advise the Company in writing of the franchise fee percentage to be charged.

Adjustment to Franchise Fee and Cap

- b) At the option of the Municipality, the franchise fee percentage may be changed annually by providing written notice to the Company by December 1 of each year, and the change is effective for the next calendar year.

The franchise fee percentage shall not at any time exceed Twenty (20%) percent, unless there has been prior Board approval.

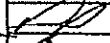

Payment of Franchise Fee

- c) The Company shall pay the franchise fee amount, to the Municipality on a monthly basis within forty-five (45) days after billing each retailer.

Reporting Considerations

- d) The Company shall provide to the Municipality along with payment of the franchise fee amount, the financial information used by the Company to verify the franchise fee amount.

The Company shall, to the extent required by law, require each retailer to disclose to each Consumer the franchise fee amount, in dollars, on each bill.

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6) **CORE SERVICES**

The Company agrees to provide those Core Services to the Municipality as set forth in Schedule "A" and further agrees to the process contained in Schedule "A".

7) **PROVISION OF EXTRA SERVICES**

Subject to an agreement being reached on cost and terms of payment, the Company agrees to provide to the Municipality those Extra Services, if any, as set forth in Schedule "B", as requested by the Municipality from time to time. The Company is entitled to receive from the Municipality a reasonable amount for the provision of those Extra Services in accordance with Schedule "B".

8) **MUNICIPAL TAXES**

Amounts payable to the Municipality pursuant to the terms and conditions hereof shall be in addition to the municipal taxes and other levies or charges made by the Municipality against the Company, its land and buildings, linear property, machinery and equipment, and the Distribution System.

9) **RIGHT TO TERMINATE ON DEFAULT**

In the event either party breaches any material provision of this Agreement, the other party may, at its option, provide written notice to the party in breach to remedy such breach. If the said breach is not remedied within two (2) weeks after receipt of the written notice or such further time as may be reasonably required by the party in breach using best efforts on a commercially reasonable basis, to remedy the breach, the party not in breach may give six (6) months notice in writing of the termination to the other party, and unless such breach is remedied to the satisfaction of the party not in breach acting reasonably this Agreement shall terminate subject to prior Board approval.

10) **SALE OF DISTRIBUTION SYSTEM**

Upon the expiration of the Term of this Agreement or the inapplicability of this Agreement to a portion of the Distribution System as contemplated in Article 12(i), or the termination of this Agreement pursuant to the terms and conditions hereof or by operation of law or order of a governmental authority or court of law having jurisdiction, the Municipality may, subject to the approval of the Board, (i) exercise its right to require the Company to sell to it the Distribution System pursuant to the provisions of the Municipal Government Act (Alberta), as may be amended, where applicable, or (ii) if such right to require the Company to sell the Distribution System is either not applicable or has been repealed, require the Company to sell to it the Distribution System. If the parties are unable to agree on price or terms and conditions of the purchase, the unresolved matters shall be referred to the Board for determination.

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11) STREET LIGHTING

Investment Rate

- * a) The Company agrees to provide and maintain existing investment street lighting within the Municipality to the level of service and standards specified in the appropriate rate for investment street lighting. This Board approved rate includes an allowance for the replacement of street lighting.

The Company agrees to provide and maintain existing investment standard decorative lighting within the Municipality to the level of service and standards specified in the appropriate rate for investment street lighting. This Board approved rate includes an allowance for the replacement of standard decorative lighting.

The Company and Municipality agree that all new Company owned street lighting and all new Company owned standard decorative lighting provided after the date of this Agreement will be charged to the Municipality on the basis of the Company investment rate.

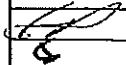

Non-Investment Rate

- b) For existing Company non-investment rate street lighting the Company agrees to maintain street lighting within the Municipality to the level of service and standards specified in the appropriate rate for non-investment street lighting. This Board-approved rate does not include an allowance for the replacement of street lighting.

For existing Company non-investment rate standard decorative lighting the Company agrees to maintain standard decorative lighting within the Municipality to the level of service and standards specified in the appropriate rate for non-investment standard decorative lighting. This Board-approved rate does not include an allowance for the replacement of standard decorative lighting.

Whenever there is a required replacement or Municipally requested relocation of any Company non-investment rate street lighting, the Municipality agrees that such replaced or relocated street lighting shall be converted to the Company investment rate.

Whenever there is a required replacement or Municipally requested relocation of any Company non-investment rate standard decorative lighting, the Municipality agrees that such replaced or relocated standard decorative lighting shall be converted to the Company investment rate.

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- The lesser of:
- (i) $A \times (1 - N/30)$,
and
- (ii) $B \times (1 - N/30)$.

N = the age of the street light in years.

Once all street lighting within the Municipality has been converted to the applicable Company investment rate, the Company shall provide and maintain street lighting within the Municipality to the level of service and standards specified in Schedule "C".

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Street Light Rates

- d) The distribution rates charged by the Company to the Municipality for street lighting and standard decorative lighting shall include only those costs and expenses that pertain to street lighting facilities all at rates approved by the Board. The costs for maintenance and servicing of non-standard decorative lighting are outlined in Schedule "B".

Municipality Owned Street Lighting

- e) Notwithstanding any other provision of this Article, it is understood and agreed that the Municipality shall have the right to own street lighting and pay the applicable rate recognizing the Municipality's ownership.

In such cases where the Municipality owns its street lighting (including decorative, non-decorative or otherwise), the Municipality agrees that:

- (i) It will bear sole and full responsibility for any liability resulting therefrom and for properly operating, servicing, maintaining, insuring and replacing such street lighting in accordance with good and safe electrical operating practices;
- (ii) Such street lighting is not to form part of the Distribution System and shall be capable of being isolated from the Distribution System;
- (iii) Such street lighting will be separately metered.

Street Light Inventory

- f) The Company shall provide to the Municipality within six (6) months of executing this Agreement an inventory of all street lighting facilities within the Municipality detailing those that: (i) form part of the Distribution System and indicate whether they are jointly used by the Company and a third party, or otherwise; and (ii) are a dedicated street light facility and indicate whether they are jointly used by the Company and a third party, or otherwise. The inventory shall, where commercially practicable, indicate which street lights are at the investment rate or the non-investment rate. Any changes to inventory will be updated on an annual basis.

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12) INCREASE IN MUNICIPAL BOUNDARIES

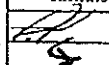
Where the Municipality increases its area through annexation or otherwise by the greater of 640 acres and 25% of the then current area, the Municipality shall have the right to:

- (i) Purchase the portion of the Distribution System within the increased area provided that the Municipality gives notice in writing to the Company of its intention to purchase within ninety (90) days of the effective date of the increase in area;
- (ii) Subject to Board approval, require the Company to charge the consumers within the increased area a different franchise fee percentage if the Municipality chooses not to exercise its right to purchase the portion of the Distribution System within the increased area and the remaining provisions of this Agreement shall apply to such increased area; or
- (iii) Add the increased area to the Municipality already served by the Company so that the rights and obligations contained in this Agreement will apply in respect of the whole Municipality, including the increased area.

For all other increases to the Municipality area through annexation or otherwise, the rights and obligations contained in this Agreement will apply in respect of the whole Municipality, including the increased area.

13) RIGHT OF FIRST REFUSAL TO PURCHASE

- (a) If during the Term of this Agreement, the Company receives a *bona fide* offer to operate, take control of or purchase the Distribution System which the Company is willing to accept, then the Company shall promptly give written notice to the Municipality of the terms and conditions of such offer and the Municipality shall during the next ninety (90) days, have the right of first refusal to operate, take control of or purchase the Distribution System, as the case may be, for the same price and upon the terms and conditions contained in the said offer.
- (b) This right of first refusal only applies where the offer pertains to the Distribution System and the right of first refusal does not apply to offers that include any other distribution systems or distribution facilities of the Company located outside of the Municipality. If such offer includes other distribution systems of the Company, the aforesaid right of first refusal shall be of no force and effect and shall not apply.

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14) **CONSTRUCTION/MAINTENANCE OF DISTRIBUTION SYSTEM**

Municipal Approval

- a) Before undertaking any Major Work or in any case in which the Municipality specifically requests the same, the Company will submit to and obtain the approval from the Municipality, or its authorized officers, of the plans and specifications for the proposed Major Work and its location. Approval by the Municipality shall not signify approval of the structural design or the ability of the work to perform the function for which it was intended.

Prior to commencing any Work, the Company shall obtain such permits as are required by the Municipality.



The Company shall obtain approval from the Municipality of any traffic lane or sidewalk closures required to be made at least forty-eight (48) hours prior to the commencement of the proposed Work.

Restoration of Municipal Property

- b) The Company agrees that when it or any agent employed by it undertakes any Work on any Municipal Property the Company shall complete the said Work promptly and in a good and workmanlike manner, and, where applicable, in accordance with the approved plans and specifications. Further, the Company shall forthwith restore the Municipal Property to the same state and condition, as nearly as reasonably possible, in which it existed prior to the commencement of such work, subject to reasonable wear and tear.

The Company shall, where reasonable, locate its poles, wires, conduits and cables down, through and along lanes in preference to streets.

The Company further covenants that it will not unduly interfere with the works of others or the works of the Municipality. Where reasonable and in the best interests of both the Municipality and the Consumer, the Company will cooperate with the Municipality and coordinate the installation of the distribution system along the designated rights-of-way pursuant to the direction of the Municipality. During the performance of the Work, the Company shall use commercially reasonable efforts to not interfere with existing Municipal Property. If the Company causes damage to any existing Municipal Property during the performance of any Work, it shall cause such damage to be repaired at its own cost.

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Upon default by the Company or its agent to repair damage caused to Municipal Property, the Municipality may provide written notice to the Company to remedy the default. If the default is not remedied with two (2) weeks after receipt of the written notice or such further time as may be reasonably required and requested by the Company using the best efforts on a commercially reasonable basis to remedy the default, the Municipality may undertake such repair work and the Company shall be liable for the reasonable costs thereof.

Urgent Repairs and Notification to Municipality

- c) If any repairs or maintenance required to be made to the Distribution System are of an urgent nature where the reliability of the Distribution System is materially compromised or potentially materially compromised, the Company shall be entitled to conduct such repairs or maintenance as are commercially reasonable without prior notice to the Municipality, on the understanding and agreement that the Company will provide written or verbal notice to the Municipality as soon as practicable and in any event no later than 72 hours after the repairs are commenced.

Company to Obtain Approvals from Other Utilities


- d) The Company shall be solely responsible for locating, or causing to be located, all existing utilities or utility lines on or adjacent to the Work site. The Company shall notify all other utility operators and ensure that utilities and utility lines are staked prior to commencement of construction. Unless the Municipality has staked the utility lines, staking shall not be deemed to be a representation or warranty by the Municipality that the utility or utility lines are located as staked. The Municipality shall not be responsible for any damage caused by the Company to any utility or any third party as a result of the Company's Work, unless the Municipality has improperly staked the utility lines. Approval must be obtained by the Company from the owner of any third party utility prior to relocation of any facility owned by such third party utility.

As-Built Drawings and Specifications

- e) The Company shall provide the Municipality with copies of as-built drawings and specifications for the Distribution System in electronic form if available, and copies of as-built drawings or specifications for any material changes or extensions to the Distribution System which occur from time to time within three (3) months of completion of the work. The Company shall provide the Municipality with copies of any other as-built drawings and specifications as reasonably requested by the Municipality.

Approvals

- f) Where any approvals are required to be obtained from either party under this Article, such approvals shall not be unreasonably withheld.

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15) RESPONSIBILITIES FOR COST OF RELOCATION

Upon receipt of one (1) years notice from the Municipality, the Company shall, at its own expense, relocate to Municipal Property such part of the Distribution System that is located on Municipal Property as may be required by the Municipality due to planned Municipal construction. The costs of such relocation shall be recovered on a specific municipal based rider or any other method approved by the Board. In order to encourage the orderly development of Municipal facilities and the Distribution System, the Municipality and the Company agree that they will meet regularly to: a) review the long-term facility plans of the Municipality and the Company; b) determine the time requirements for final design specifications for each relocation; and c) determine the increased notice period that may be required beyond one year for major relocations.

In cases of emergency, the Municipality may take any measures that are commercially reasonable and necessary for the public safety with respect to relocating any part of the Distribution System that may be required in the circumstances, and the Company shall reimburse the Municipality for all commercially reasonable expenses incurred thereby.

If the Company fails to complete the relocation of the Distribution System in accordance with the preceding paragraph, or fails to repair or do anything else required by the Company pursuant to this clause in a timely and expeditious manner to the satisfaction of the Municipality's engineer, acting reasonably, the Municipality may, but is not obligated to, complete such relocation or repair and the Company shall pay the reasonable costs of such relocation or repair forthwith to the Municipality. If the Municipality chooses to complete such relocation or repair the Municipality will ensure that such work is completed using the Company's design specifications and standards, as provided by the Company, including the use of good and safe electrical operating practices.

The Municipality is not responsible, either directly or indirectly, for any damage to the equipment which may occur during its installation, maintenance or removal by the Company, nor is the Municipality liable to the Company for any losses, claims, charges, damages and expenses whatsoever suffered by the Company including claims for loss of revenue or loss of profits, on account of the actions of the Municipality, its agents or employees, working in, under, over, along, upon and across its highways and rights-of-ways or other Municipal Property other than direct loss or damage to the Company caused by the negligence or wilful misconduct of the Municipality, its agents or employees.

In the event the relocation or any part thereof requires the approval of the Municipality or a third party, the Municipality will assist the Company in obtaining Municipal approvals and the Municipality will use reasonable efforts to assist the Company in any negotiation with such third party to obtain the necessary approval(s).

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In the event the relocation results from the demand or order of an authority having jurisdiction, other than the Municipality, the Municipality shall not be responsible for any of the costs of such relocation.

Subject to Schedules "B" and "C", it is understood and agreed that the Municipality cannot insist on relocating any overhead lines to an underground service if there is a less expensive more practical solution. If there is not a less expensive more practical solution, the Municipality and the Company will meet to negotiate suitable arrangements.

16) DISTRIBUTION SYSTEM EXPANSION

At no cost to the Municipality, with the exception of Customer contributions, the Company shall, at its sole cost and expense, on a timely basis and pursuant to its Terms and Conditions, use its best efforts on a commercially reasonable basis to meet the Distribution System expansion requests of the Municipality or a Consumer, and provide the requisite facilities for connections for new Consumers to the Distribution System.

17) JOINT USE OF DISTRIBUTION SYSTEM



Municipal Use

- a) The Municipality shall upon notice to the Company have, for any reasonable municipal purpose (which does not include a third party business such as a cable or telecommunications business), the right to and make use of the poles and conduits of the Company, and any rights-of-way granted to the Company, provided such use complies with good and safe electrical operating practices, applicable legislation, and does not unreasonably interfere with the Company's use thereof, at no charge to the Municipality. The Municipality is responsible for its own costs and any necessary and reasonable costs incurred by the Company including the costs of any alterations that may be required in using the poles and conduits of the Company.

Third Party Use and Notice

- b) The Company agrees that should any third party including other utilities desire to jointly use the Company's poles, conduits or trenches or related parts of the Distribution System, the Company shall not grant the third party joint use except in accordance with this Article, unless otherwise directed by any governmental authority or court of law having jurisdiction.

The Company agrees that the following procedure shall be used in granting permission to third parties desiring joint use of the Distribution System:

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- i) first, the third party shall be directed to approach the Company to initially request conditional approval from the Company to use that part of the Distribution System it seeks to use;
- ii) second, upon receiving written conditional approval from the Company, the third party shall be directed to approach the Municipality to obtain its written approval to jointly use that part of the Distribution System on any Municipal Property or right-of-way;
- iii) third, upon receiving written conditional approval from the Municipality, the third party shall be directed to obtain final written approval from the Company to jointly use that part of the Distribution System.

Providing the Company has not precluded the Municipality's ability to obtain compensation or agreements from any third parties using any Municipal Property, the Municipality agrees that the procedure outlined above shall apply only to agreements made after January 1, 2000.

Cooperation

- c) The Company and Municipality agree they will use reasonable efforts to cooperate with each other in any negotiations with third parties desiring joint use of any part of the Distribution System located on Municipal Property.

Payment

- d) The compensation paid or to be paid by such third party to the Municipality for the use of the Municipal Property including its rights-of-way, shall be determined between the Municipality and the third party.

The compensation paid or to be paid by such third party to the Company for the joint use of its poles, conduits or related parts of the Distribution System shall be determined between the Company and the third party, subject to the jurisdiction of any governmental authority over the matter and the Municipality's right to intervene in any related regulatory proceeding.

Provision of Agreements

- e) The Company shall provide to the Municipality within 6 months of executing this Agreement a copy of all agreements between the Company and any third parties involved in the: (i) joint use of any part of the Distribution System; and, (ii) in the joint use of any street lighting.

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Upon reasonable request by the Municipality, copies of these agreements and inventory list shall be updated by the Company and provided to the Municipality at no cost to the Municipality.

The Company acknowledges that it does not have the authority to allow nor to grant to any third party the right to use any right-of-way that the Municipality authorized the Company to use.

Compensation for Costs

- f) Subject to Article 17(c), in the event that either party to the Agreement is required by law to appear before the Canadian Radio-television and Telecommunications Commission ("CRTC") or a Court of law as a direct result of the actions of the other party ("Denying Party") relating to the denial of use to a third party of any part of the Distribution System, then the Denying Party shall pay all reasonable and necessary legal costs incurred by the other party that are directly related to any such CRTC or Court of law proceeding.

18) OPEN ACCESS

The Company shall provide Distribution Access Service to retailers to allow them to carry on their authorized functions in accordance with the Company's Distribution Tariff and the provisions of the Act and any regulations passed pursuant thereto.

19) MUNICIPALITY AS RETAILER

The provisions of this Agreement shall not in any way restrict the right of the Municipality to become a retailer within the meaning of the Act.

20) RECIPROCAL INDEMNIFICATION AND LIABILITY

The Company acknowledges and agrees that the liability protection and indemnification provisions, if any, afforded to it by the Municipality, in its capacity as a customer, under the customer Terms and Conditions (excluding retail terms and conditions) shall apply, with the necessary changes, to the Municipality with reciprocal rights thereunder.

21) ASSIGNMENT

In the event that the Company agrees to sell the Distribution System to a third party purchaser, the Company will request that the third party purchaser confirm in writing that it will agree to all the terms and conditions of this Agreement between the Company and the Municipality. The Company agrees that it will provide to the Municipality a copy of the third party purchaser's confirmation letter.

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| Municipality | <i>[Signature]</i> |
| Company | <i>[Signature]</i> |

The Company agrees to provide the Municipality with reasonable prior written notice of a sale of the Distribution System to a third party purchaser. The parties shall thereafter meet to discuss the technical and financial capabilities of the third party purchaser to perform and satisfy all terms and conditions of the Agreement.

The Municipality has thirty (30) days from the meeting date with the Company to provide written notice to the Company of its intention to consent or withhold its consent to the assignment of the Agreement to the third party purchaser. The Municipality agrees that it may provide notice of its intention to withhold its consent to the assignment of this Agreement to the third party purchaser solely on the basis of reasonable and material concerns regarding the technical capability or financial wherewithal of the third party purchaser to perform and satisfy all terms and conditions of the Agreement. In this case, such notice to the Company must specify in detail the Municipality's concern. Should the Municipality not reply within the thirty (30) days, it is agreed that the Municipality will be deemed to have consented to the assignment. The Company further agrees that, when it applies to the Board for approval of the sale, it will include in the application any notice received from the Municipality, including the reasons given by the Municipality for withholding its consent. The Municipality shall have the right to make its own submissions to the Board.



Subject to the Company having fulfilled the obligations outlined in the preceding three paragraphs, the Company shall be entitled to assign this Agreement to an arm's length third party purchaser of the Distribution System without the consent of the Municipality, subject to having obtained the Board's approval for the sale of the Distribution System and, the third party purchaser's confirmation in writing that it agrees to all the terms and conditions of this Agreement.

Where the Board approves such sale of the Distribution system to a third party and the third party provides written confirmation to assume all liabilities and obligations of the Company under this Agreement, then upon the assignment of this Agreement the Company shall be released from all its liabilities and obligations thereunder.

The Company shall be entitled to assign this Agreement to a subsidiary or affiliate of the Company without the Municipality's consent. Where the Company assigns this Agreement to a subsidiary or affiliate, the Company will remain jointly and severally liable.

Further, it is a condition of any assignment that the subsidiary, affiliate or third party purchaser, as the case may be, shall provide written notice to the Municipality indicating that it will assume all liabilities and obligations of the Company under this Agreement.

Any disputes arising under the operation of this Article shall be submitted to the Board for determination.

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22) NOTICES

All notices, demands, requests, consents, or approvals required or permitted to be given pursuant to the terms of this Agreement shall be in writing and shall be deemed to have been properly given if personally served or sent by registered mail or sent by fax to the Municipality or to the Company as the case may be, at the addresses set forth below:

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| (i) | To the Company: | ATCO Electric Ltd., P.O. Box 2426, 10035 – 105 Street Edmonton, Alberta, T5J 2V6 Fax: (780) 420-7400 |
| (ii) | To the Municipality: | Town of Two Hills P.O. Box 630 Two Hills, Alberta, T0B 4K0 Fax: (780) 657-2158 |

The date of receipt of any such notice as given above, shall be deemed to be as follows:

- (i) In the case of personal service, the date of service;
- (ii) In the case of registered mail, the seventh (7th) business day following the date of delivery to the Post Office, provided, however, that in the event of an interruption of normal mail service, receipt shall be deemed to be the seventh (7th) day following the date on which normal service is restored;
- (iii) In the case of a fax, the date the fax was actually received by the recipient.

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23) INTERRUPTIONS OR DISCONTINUANCE OF ELECTRIC SERVICE



Subject to its Distribution Tariff, the Company shall use its best efforts on a commercially reasonable basis to avoid and minimize any interruption, reduction or discontinuance of Distribution Access Service to any Consumer. However, the Company reserves the right to do so for any one of the following reasons:

- (i) Where the Company is required to effect necessary repairs or changes to the Distribution System;
- (ii) On account of or to prevent fraud or abuse of the Distribution System;
- (iii) On account of defective wiring or other similar condition which in the opinion of the Company, acting reasonably, may become dangerous to life or property;
- (iv) Where insufficient energy or power is available for distribution by the Company to a Consumer.
- (v) Where required by a Retailer, due to non-payment of power bills.

To the extent the Company has any planned major interruptions, reductions or discontinuances in Distribution Access Service, it shall notify the Municipality as soon as practicable in the circumstances. For any other major interruption, reductions or discontinuances in Distribution Access Service, the Company shall provide verbal notice to the Municipality as soon as is practicable in the circumstances.

24) DISPUTE SETTLEMENT

To the extent permitted by law, the Company and Municipality agree that unresolved disputes pertaining to this Agreement, other than those contemplated in Articles 3 and 21, or those related to the sale of the Distribution System as contemplated in Articles 10 and 12 (i) hereof, or any other matter that is within the exclusive jurisdiction of a governmental authority having jurisdiction, shall be submitted to arbitration for determination and may be commenced by either party providing written notice to the other party stating the dispute to be submitted to arbitration. The parties shall attempt to appoint a mutually satisfactory arbitrator within 10 business days of the said notice. In the event the parties cannot agree on a single arbitrator within the 10 business days, each party shall appoint an arbitrator within the 10 business days thereafter by written notice, and the two arbitrators shall together appoint a third arbitrator within 25 business days of written notice for arbitration. The dispute shall be heard by the arbitrator(s) within 45 business days of the written notice for arbitration unless extended by mutual agreement between the parties. The arbitrator(s) shall render a decision within 20 business days of the last day of the hearing. Save as otherwise expressly provided in this

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Agreement, the provisions of the Arbitration Act (Alberta) (as amended from time to time) shall apply to any arbitration undertaken under this Agreement subject always to the Board's jurisdiction over any matter submitted to arbitration. Pending resolution of any dispute, the Municipality and the Company shall continue to perform their respective obligations hereunder.

The Company shall advise the Board of any dispute submitted to arbitration within ten (10) business days of it being submitted and shall advise the Board of the results of arbitration within ten (10) business days following receipt of the decision of the arbitrator(s).

25) APPLICATION OF WATER, GAS AND ELECTRIC COMPANIES ACT

This Agreement shall be deemed to operate as consent by the Municipality to the exercise by the Company of those powers which may be exercised by the Company with the consent of the Municipality under and pursuant to the provisions of the Water, Gas and Electric Companies Act (Alberta), as amended.

26) FORCE MAJEURE



If either party shall fail to meet its obligations hereunder within the time prescribed, and such failure shall be caused or materially contributed by an event of "force majeure", such failure shall be deemed not to be a breach of the obligations of such party hereunder, but such party shall use its best efforts to put itself in a position to carry out its obligations hereunder. The term "force majeure" shall mean any acts of God, strikes, lock-outs, or other industrial disturbances, acts of the Queen's enemies, sabotage, war, blockades, insurrections, riots, epidemics, lightening, earthquakes, storms, fires, wash-outs, nuclear and radiation activity or fall-out, restraints of rulers and people, orders of governmental authorities or courts of law having jurisdiction, the inability to obtain any necessary approval from a governmental authority having jurisdiction (excluding municipal governments), civil disturbances, explosions, mechanical failure, and any other causes similar in nature not specifically enumerated or otherwise specified herein that are not within the control of such party, and all of which by the exercise of due diligence of such party could not have been prevented. Lack of finances shall be deemed not to be an event of "force majeure".

27) TERMS AND CONDITIONS

The Terms and Conditions that apply to the Company and are approved by the Board, as revised or amended from time to time by the Board, shall apply to the Municipality.

28) NOT EXCLUSIVE AGAINST HER MAJESTY

Notwithstanding anything to the contrary herein contained, it is mutually understood and agreed that the rights, powers and privileges conferred and granted by this Agreement shall not be deemed to be exclusive against Her Majesty in the right of the Province of Alberta.

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29) SEVERABILITY

To the extent permitted by law, any provision of this Agreement which is prohibited or unenforceable, shall be ineffective to the extent of such prohibition or unenforceability, without invalidating the remaining portions hereof.

IN WITNESS WHEREOF the parties hereto have executed these presents as of the day and year first above written.

TOWN OF TWO HILLS

ATCO ELECTRIC LTD.

Per: [Signature]
Mayor

Per: [Signature]
President

Per: [Signature]
Chief Administrative Officer

Per: [Signature]
Vice President, Operations

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| DIST. SERVICE | JT |
| PRICING | SP |
| CONTRACTS | DS |
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

SCHEDULE "A"
Core Services

The Company shall provide to the Municipality the following basic services as Core Services:

- 1) The Distribution Access Service required to be provided by the Company pursuant to the Company's Distribution Tariff, the Act, any regulations thereto, and any Board Orders;
- 2) The Company shall provide to the Municipality, on request, copies of any and all Distribution Access Service related written information or reports required to be filed with the Board, with the exception of responses to questions from interveners or the Board related to rate hearings.

Notwithstanding the above, should the Company implement Board approved Performance Based Regulation(PBR), it will provide the Municipality, on request, the results of the Performance Standards as set out in the PBR.

- 3) The Company shall provide to the Municipality, upon request, an annual report on the following standards specific to the Municipality:
 - i) Reliability measures, to the extent that distribution feeders are a proxy to the overall reliability for the Municipality. In some cases the distribution feeder information will be a good proxy for the overall reliability in a Municipality. In other cases, where the distribution feeder serves customers outside of the Municipal Boundaries, it may not be a good proxy;
 - ii) The total number of outages, by distribution feeder;
 - iii) The average duration of the outages, by distribution feeder;
 - iv) Customer complaint statistics related to Distribution Access Service as available within the Municipality;
 - v) The results of any local customer surveys agreed to between the Company and the Municipality;
 - vi) The number of major repairs to the Distribution System where the individual repair is in excess of \$50,000 and the work caused a major outage or disrupted Municipal facilities or services;
 - vii) Street light performance, as discussed in Schedule "C";
 - viii) Numbers of fire and police emergency calls received from the Municipality, as available.
- 4) The Company shall provide an annual report of material activities in the past year and planned activities for the next year summarizing the information referred to in paragraphs 2 and 3 above.
- 5) The Company agrees to strive for continual improvement, balancing the need for improvements on performance with the cost impact on customers;

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SCHEDULE "B"
Extra Services

- 1) Where the Municipality requests Extra Services, the Company will provide its applicable operations and maintenance standards for Distribution System field services.

- 2) Extra Services requested by Municipality:

None.

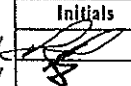
If the Company and the Municipality agree that the Company will provide Extra Services requested by the Municipality, the parties shall complete the information required in subparagraph 3), and subparagraph 4) shall apply in respect of such Extra Services. Where the context requires, subparagraph 5) shall apply to such Extra Services.

- 3) In consideration for the provision of the Extra Services, the Municipality shall pay to the Company the sum of _____ Dollars (\$_____) which shall be collected as part of the Franchise Fee.
- 4) Within sixty (60) days of the end of each calendar year, the Company shall provide a written report to the Municipality, outlining the actual performance of the Extra Services provided and the related costs for each service for the Municipality to assess if the performance standards have been met.
- 5) Non-standard decorative lights will be owned by the Company. The rates charged by the Company to the Municipality for non-standard decorative street lighting shall include only those costs and other appropriate expenses that pertain to non-standard decorative lighting facilities. ←

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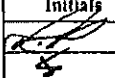
SCHEDULE "C"
Street Lighting

1. The Company agrees to provide the following services for street lighting within the Municipality as part of its Core Services:
 - a) **Lights-out Patrols:** On a monthly basis, during the eight winter months (September 15th to May 15th), the Company will conduct a "lights-out" street light patrol to identify lights that are not working. Formal street light patrols will not be conducted during the summer months, however, normal reporting and replacement procedures will be maintained.
 - b) **Lights-out:** The Company will repair lights identified in its patrol or reported by customers, within two weeks. If the reported light is not repaired within two weeks, the Company will provide a two-month credit to the Municipality based on the rate in the Distribution Tariff for the burnt out lights. Such two-month credit shall continue to apply for each subsequent two-week period during which the same light(s) have not been repaired. The Company agrees to use best commercial efforts to repair street lights at critical locations as soon as possible. The location of the critical street lights will be agreed to by both parties.
 - c) **Underground Breaks:** As a minimum, the Company will provide a temporary overhead repair within two weeks of an identified or reported outage. Underground breaks identified during the summer months of April 15th to September 15th will be repaired (underground) by October 31st of the current summer construction period. A permanent repair will be made by October 31st of the next year if the outage is identified between the winter months of September 15th to April 15th.
 - d) **Street light Painting:** The Company will provide a regular street light "painting" patrol as part of its Street light inspection program. The Municipality may request that it participates in select street light inspection patrols and may review the results of the street light inspection program. Street lights that are identified as requiring immediate work through the Street light inspection program will be re-painted by October 31st of the next maintenance season.
 - e) **Street light Pole Test Program:** Street lights will be tested at least every nine (9) years as part of the Company's Pole Test Program. This program will identify poles that need to be replaced and those that should be treated. This work will be completed by October 31st of the next summer maintenance season.
 - f) **Street light Patrol:** The Company will include regular street light inspection patrols as part of its inspection of equipment and lines, as specified in the Alberta Electrical and Communication Utility Code.

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2. On an annual basis, the Company will provide the following information to the Municipality:

- i. The number of "lights-out" identified from the street light patrols;
- ii. The number of temporary overhead repairs at year-end;
- iii. The number of permanent underground repairs made during the year;
- iv. The number of street lights identified as needing re-painting, poles needing replacing or treatment;
- v. The number of street lights re-painted, replaced or treated;
- vi. Annual inventory of street lights (can compare to lights billed) within the Municipality;
- vii. Planned work completed in past year and planned for next.

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