

ONTARIO REALTY CORPORATION
Schedule to Leasing Guidelines
for the
Provincial Secondary Land Use Program

Purpose:

To establish and maintain an appropriate framework for the leasing or licensing to third parties of government-owned land that was previously owned by Hydro One Networks Inc. or its subsidiaries (“HONI”) prior to December 31, 2002 (the “Lands”). This Schedule to the Leasing Guidelines is in effect as of January 1, 2003.

Application of the Schedule:

This Schedule applies to all leasing or licensing activity of the Lands to lessees or licensees under the Provincial Secondary Land Use Programme (“Programme”).

Leasing Framework:

The leasing framework, as set out below, forms the basis of ORC’s corporate responsibilities and accountabilities in respect of leasing or licensing activity under the Programme:

- The Province of Ontario has enacted Bill 58, *Reliable Energy and Consumer Protection Act* (the “Act”) into law as of June 27, 2002.
- The Province of Ontario has proclaimed that Section 23 of the Act came into force on December 31, 2002 (the “effective date”). Such proclamation has resulted in the transfer of certain HONI-owned lands to Her Majesty the Queen, such lands being defined in the “Act” as “corridor land”. HONI retains the primary right to use the corridor land for transmission and distribution purposes in the form of a statutory easement, as well as the ownership of buildings and structures (such as generating stations and transmission towers) on the corridor land. ORC has been designated by MBS to act on its behalf in carrying out certain real estate activities associated with the ongoing management and administration of the Programme as of the effective date.
- The Memorandum of Understanding between the Chair of the Management Board of Cabinet (the “Chair”) and Ontario Realty Corporation (“ORC”);
- Management Board of Cabinet (“MBC”) Real Property and Accommodation Directive (the “Directive”);
- The Realty Services Management Agreement between MBS and ORC, and;
- Delegation of Authority from the Chair to ORC pursuant to the Ministry of Government Services Act.

Scope and Mandate:

- MBS, as owner of the government’s real estate, has responsibility to provide realty and accommodation services;
- The Chair has delegated this responsibility to ORC;
- Up to the effective date, HONI has been managing and administering the Programme for HONI-owned lands. HONI will maintain all current secondary land use agreements until they expire. All new agreements will be established and maintained by ORC;
- The Programme consists of two components: secondary land use transactions and operational land sales;

- As of the effective date, ORC is now managing and administering the secondary land use and operational land sales program for previously-owned HONI lands;
- ORC may retain a Service Provider to manage these lands;
- The Programme involves the initiative of Her Majesty the Queen as the owner of the corridor land to protect the corridor land for public use such as transportation, recreation and infrastructure while at the same time ensuring that HONI and its sub-licensees (being third parties licensed to use the corridor land for the primary purpose of transmission or distribution of electricity) continue to have the primary right to use the corridor land to operate a transmission or distribution system as defined in the *Electricity Act*. Subject to the above public use priorities, the Programme also contemplates other private use of the corridor lands in order to maximize a financial return to the Province;
- Municipalities in the Province shall have a period of up to two (2) years from the effective date to identify new potential linear public uses on contiguous corridor land. This two (2) year period may effectively limit the extent to which any secondary land use may be implemented on the corridor land during such period;
- Secondary land uses typically include the licensing and leasing of land for a specific term for a variety of purposes including car parking, commercial operations, agricultural uses, parks and encroachments, special event or access permits, as well as the granting of easements for pathways, sewers, water mains, cabling and similar uses;
- The Programme ensures that all secondary land uses are compatible with HONI's existing and planned transmission and distribution installations from both a safety and overall operational and technical perspective;
- New recreational uses with little or no chance of generating revenue will continue to be charged a nominal rate of \$1 per year plus property tax and maintenance costs. Rent or license fees for other public and private uses will be calculated at market value;
- This Schedule to the Leasing Guidelines applies only to secondary land use transactions, excluding easements. Easements and operational land sales are governed by the ORC Real Estate and Sales Guidelines and Procedures.

Responsibilities & Accountabilities:

ORC Board of Directors is responsible for:

- Approving the ORC Leasing Guidelines and any of its Schedules;
- Providing decisions requiring approval of the Board in accordance with ORC's Leasing Delegations of Authority.

ORC Senior Management is responsible for:

- Setting corporate strategies and establishing expectations for leasing activities;
- Ensuring appropriate organizational framework to support leasing responsibilities;
- Determining priorities;
- Monitoring ongoing leasing activities, including administration of the Leasing Broker Pool;
- Supervising the implementation of leasing decisions;
- Providing decisions requiring approval of senior management pursuant to ORC's Leasing Delegations of Authority.

With respect to the previously-owned HONI lands under the Provincial Secondary Land Use Programme, ORC Facility Services Division is responsible for:

- The negotiation of all new and renewal lease or license transactions. A "renewal" transaction involves an agreement or transaction (with an existing user) which has expired and where there are no further rights or options to extend such use included in such agreement or transaction;

- The evaluation and approval of all new and renewal license or lease transactions under the Programme, subject to HONI's primacy of use;
- The evaluation and approval of any new licensee or lessee, including credit and reference checks as necessary;
- The engagement of external consultants, in accordance with ORC procurement policies, as may be necessary to evaluate and approve any license or lease transaction;
- The coordination of ORC approval with the Real Estate and Sales Division in the areas of municipal planning review, land valuations (appraisal services), survey, and environmental assessment requirements under the MBS Class EA Process;
- The negotiation and preparation of legal agreements for all license and lease transactions, which shall be in accordance with ORC approved legal documents;
- The authorization of all license or lease transactions in accordance with the ORC Leasing Delegations, as specifically amended herein;
- Ongoing rental administration of any new or renewal license or lease transaction.

LEASING PROCEDURES

LEASING OUT

Under the Programme, " Leasing Out " means the leasing or licensing of MBS-owned corridor land to third party lessees or licensees, either to the public or private sector, subject to HONI's primacy of use for the distribution of electricity. Secondary land uses typically include the licensing and leasing of land for a specific term for a variety of purposes including car parking, commercial operations, agricultural uses, parks and encroachments, and special event or access permits.

A. Initiation:

(1) New Lease / License Transactions :

- On an on-going basis, new land lease or license proponents may apply to ORC Facilities or its Service Provider, for the secondary use of corridor land.
- The Service Provider or ORC Leasing Transaction Manager will ensure that all new secondary land uses are compatible with HONI's existing and planned transmission and distribution installations, from both a safety and overall operational and technical perspective.
- The Service Provider or ORC Leasing Transaction Manager will coordinate any property preparation approvals required by the ORC Real Estate and Sales Division in the areas of municipal planning review, land valuations (appraisal services), surveys, and environmental assessment requirements under the MBS Class EA Process.

(2) Renewal Lease/ License Transactions:

- HONI will maintain all current secondary-use agreements until their initial or extension terms expire;
- A renewal transaction involves an agreement or transaction (with an existing user) which has expired and where there are no further rights or options to extend such use included in such agreement or transaction.
- The Service Provider or ORC Leasing Transaction Manager will coordinate any property preparation approvals required by the ORC Real Estate and Sales Division in the areas of land valuations (appraisal services).

B. Negotiation of Leases / Licenses:

(1) Negotiations:

- The Service Provider or ORC Leasing Transaction Manager will negotiate all new and renewal secondary land use transactions in terms of term, rent, renewal options, and other required lease/ license terms and conditions. Such lease/ license terms and conditions will be subject to HONI's primacy of use.
- All negotiated lease and license transactions shall be subject to the approval of the delegated authority set out in ORC's Leasing Delegations.
- The Service Provider or ORC Finance will evaluate and approve any new licensee or lessee, in terms of credit and reference checks as necessary.
- The Service Provider or Leasing Transaction Manager will engage external consultants, in accordance with ORC procurement policies, as may be necessary to evaluate and approve any license or lease transaction.

(2) Rent Valuations:

The Service Provider or ORC Leasing Transaction Manager will negotiate rent or fees for leases and licenses on the following basis:

- New recreational uses with little or no chance of generating revenue will continue to be charged a nominal rate of \$1 per year plus property tax and maintenance costs.
- Rent for other public and private uses will be calculated at market value.
- Market rent will be based on the market value of the lands multiplied by a market rate of return.
- The market value of the lands will be determined by the ORC Real Estate and Sales Division.

(3) Market Exposure of Properties:

For the Leasing Out of land under the Programme, the Service Provider or ORC Leasing Transaction Manager will publicly market corridor land on the following basis if all of the conditions set out below exist:

- The proposed lessee or licensee is not another level of government, provincial agency or corporation, utility corporation, or conservation authority.
- The proposed lease or license term is greater than 2 years.
- The base (excluding realty taxes and operating expenses) rental value over the proposed lease or license term is greater than \$50,000.
- Public marketing of property is based on the following:
 - If the property is land-locked, then the property will be marketed directly to the physically adjacent land owners.
 - If the property has right-of-way frontage or access, then the property will be publicly marketed through a real estate broker, real estate advisor or consultant, or the Service Provider.

C. Approval Process:

(1) Deal Approval:

- Upon receipt of the proponent's written acceptance of a Letter of Intent/ Offer to Lease, a briefing note summarizing the terms of the lease or license is prepared and submitted by the ORC Leasing Transaction Manager to the appropriate approval authority.

(2) ORC Approval Delegation:

- Authorization of ORC senior management is obtained in accordance with the ORC's Leasing Delegations of Authority. Refer to Appendix I for Delegated Authorities for Leasing Activities.
- Under the Programme, nominal value (base rent) licenses to municipalities for non-revenue generating recreational uses shall be permitted under the ORC Leasing Delegations.
- Authorizations for easements or operational land sales under the Programme will be subject to the Delegations of Authority for Real Estate and Sales.
- ORC, as agent of the "owner", Management Board Secretariat (MBS), has ultimate authority with respect to all leasing or licensing activities.

(3) Deal Commitment:

- If approved by the appropriate ORC approval authorities, the Leasing Transaction Manager or Service Provider forwards a binding letter to the lease or license proponent waiving the applicable Letter of Intent/ Offer to Lease conditions.

D. Implementation:

(1) Documentation:

- The Service Provider is requested to prepare a lease document using ORC's standard form for execution by all parties.
- The Service Provider is responsible for obtaining its legal services.
- HONI has no authority to enter into and/or execute binding Offers to License / Lease or Lease Agreements on behalf of MBS/ORC.

(2) Lease Database & Payment Administration:

- The Service Provider formally advises the ORC Finance Department of the transaction terms. ORC Finance Department adjusts the rental charges in accordance with the agreements, and Leasing Transaction Manager or Service Provider update the database information on the lease or license location.