

**OPINION OF McCARTHY TÉTRAULT CONCERNING  
CALL FOR PROPOSAL DOCUMENTS AND  
CONTRACTS AWARDED FOR THE PURCHASE AND  
INSTALLATION OF AMI METERS**



January 17, 2012

PRIVILEGED AND CONFIDENTIAL

Hydro-Québec  
75 René-Lévesque Boulevard  
West  
Montreal (Quebec)  
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To the attention of Mr. Georges Abiad, Project Manager, Advanced Metering Infrastructure

Dear Sir,

This letter is in reference to your request to obtain our legal opinion on the contractual agreements entered into between Hydro-Québec Distribution and third-party contractors as to the supply and installation of intelligent meters, the related telecommunications infrastructure and acquisition front-ends in connection with Hydro-Québec Distribution's Remote Meter Reading Project.

More specifically, you requested our opinion on the question of determining whether Hydro-Québec Distribution entered into these contractual agreements i) in accordance with customary business terms and conditions, and ii) based on firm contract prices.

As part of this directive, we have examined the contractual agreements entered into between Hydro-Québec and two third-party contractors, i.e., i) the supplier of 80% of the intelligent meters, telecommunications infrastructure and acquisition front-ends (the "supplier") and ii) the service provider for the installation of the intelligent meters (the "service provider").

Hydro-Québec Distribution granted contracts separately at the same time to the supplier and to the service provider after an initial call for applications and a subsequent call for proposals for each contract. In both cases, Hydro-Québec Distribution issued a notice of award to the chosen tenderer.

We will examine each contractual agreement below. As part of our examination, we have focused our attention exclusively on the legal business terms and conditions between the parties and we have refrained from examining the material elements and technical specifications or data of a purely financial nature. We will express no opinion in that regard.

In sum and on the basis of our examination below, we are of the opinion that the contractual agreements entered into between Hydro-Québec Distribution and the supplier, and between Hydro-Québec Distribution and the service provider, were entered into in accordance with

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\* We believe this to mean that Hydro-Québec Distribution has chosen a different contractor to supply 20% of the intelligent meters, but that the final details of these contractual agreements have not yet been determined.

customary business terms and conditions, for the purpose of achieving their objective at as firm a contract price as the circumstances of the Remote Meter Reading Project permit.

I. Contractual agreement between Hydro-Québec Distribution and the supplier

Hydro-Québec Distribution's notice of award to the supplier dated May 19, 2011 states that the supplier will supply up to 80% of the intelligent meters, telecommunications infrastructure and acquisition front-ends for a specified "maximum amount" and according to the agreed terms and conditions.

A small percentage of this "maximum amount" is the firm price for two pilot projects (one in an urban zone and one in a rural zone). The balance of the "maximum amount" is for the bulk deployment of the meters. This bulk deployment will be carried out at Hydro-Québec Distribution's discretion and is in particular dependent on i) the success of the two pilot projects, ii) the acknowledgement of the project's economic value as a whole, and iii) obtaining authorization for the project from the Régie de l'énergie.

In our opinion, the parties' use of the expression "maximum amount" in the notice of award expresses their intent to establish a ceiling on Hydro-Québec Distribution's financial obligations under the contract.

The notice of award specifies that the contract is awarded in accordance with a list of contractual documents described in the appendix. These documents specify in more detail the contractual agreement entered into between Hydro-Québec Distribution and the supplier and complete the agreement. These contractual documents are described in descending order of priority, with the documents listed first having priority over the documents listed last.

The first contractual document is a list of final price schedules. This document begins with a statement of the project costs, including a cost option that corresponds to the "maximum amount" stated in the notice of award. We believe this to mean that Hydro-Québec Distribution chose this cost option, and that, as a consequence, the parties reached an agreement on the "maximum amount" of the contract.

The list of final price schedules is followed by a document entitled "Specific Clauses." This document sets out the detailed provisions that govern the essence of the contractual relationship between the parties. In our opinion, these provisions constitute customary business terms and conditions for this type of contractual agreement.

The "Specific Clauses" set out, among others, detailed provisions relating to: i) the contract term, ii) rights to terminate and the distribution of responsibilities between the parties, iii) delivery, transportation of the meters and other equipment, including provisions for quality control, warranty and penalty, iv) terms and conditions for acquiring software and licenses, v) information technology security and protecting the confidentiality of the information to which the supplier has access, vi) guarantees and evaluation of performance, vii) payment terms, including performance holdbacks, viii) dispute settlement, and ix) financial terms and conditions.

The "Specific Clauses" document is followed by other customary contractual documents. These documents include, among others: i) Hydro-Québec Distribution's "General Clauses" which set out the general terms and conditions in Hydro-Québec Distribution's contacts with relevant amendments, ii) a statement of final work, iii) certain documents relating to the call for proposals process, and iv) a third-party agreement relating to the source code of the software supplied by

the supplier. Pursuant to an assignment agreement effective July 26, 2011, the supplier assigned the contract to its Canadian subsidiary and gave an unconditional guarantee as to the subsidiary's contractual obligations.

In sum, these contractual documents are not only customary, but they also limit Hydro-Québec Distribution's vulnerability to financial risk. Several of the provisions stipulate incentives, such as corrective measures, penalties and performance holdbacks, to ensure that the supplier meets its performance obligations and the technological objectives established by Hydro-Québec Distribution.

Pursuant to the contractual agreement, the supplier is bound to perform all the work associated with the two pilot projects in consideration of lump-sum compensation, which constitutes a limit to Hydro-Québec Distribution's financial obligations.

After completing the pilot projects, the decision to proceed with the bulk deployment essentially reverts to Hydro-Québec Distribution. This bulk deployment is divided into three zones (zones 1, 2 and 3) which cover different regions of Quebec serviced by Hydro-Québec Distribution.

Throughout the entire term of the overall project, the meters and telecommunications equipment are supplied at firm unit prices for zone 1 or at "capped" unit prices for zones 2 and 3. The "capped" unit prices for zones 2 and 3 may be readjusted upward only if the exchange rate (\$C - \$US) fluctuates by more than 5% between April 29, 2011 and the date on which Hydro-Québec Distribution confirms the deployment in these zones. These "capped" unit prices may also be readjusted downward to ensure that Hydro-Québec Distribution benefits from the most advantageous business terms and conditions according to a "most favored nation clause" for comparable services provided by the supplier.

The price of telecommunications network topology services and support and optimization services are established based on a fixed lump-sum price. The prices for software and licenses relating to the acquisition front-end and the maintenance and support are fixed according to the final price schedules. The compensation terms and conditions for "post implementation" support services are also provided in the final price schedules.

With regard to the infrastructure deployment in zones 1, 2 and 3, the supplier is bound to comply with a "price 'without exceeding.'" With regard to zone 1, the supplier sets the "price 'without exceeding'" in advance. The "price 'without exceeding'" for zone 2 is set after zone 1 is completed and that for zone 3 is set after zone 2 is completed.

We believe this to mean that the final determination of the supplier's "price 'without exceeding'" relating to zones 2 and 3 essentially depends on finalizing the equipment quantities required for each zone. The supplier nevertheless guaranteed an overall maximum on the number of units necessary for one central component and will assume the unit costs in excess of this maximum for this component.

For the entirety of zones 1, 2 and 3, the contractual agreement stipulates an amount of compensation "without exceeding—maximum quantity." This constitutes a firm limit on Hydro-Québec Distribution's financial commitments under the contract. This price may not be increased and covers all services provided under the contract, with the exception of taxes on products and services and sales taxes.

## II. Contractual agreement between Hydro-Québec Distribution and the service provider

Hydro-Québec Distribution's notice of award to the service provider dated November 3, 2011 states that the latter will install intelligent meters for the pilot project in urban environments and will carry out the bulk deployment according to the agreed terms and conditions. Furthermore, Hydro-Québec Distribution exercises its option to acquire certain accessories from the service provider and to allocate an additional amount to it for installation rates above the agreed target for, at least, the first six months of the bulk deployment.

The amounts stated in the notice of award are characterized as being maximum amounts. The payment of these amounts depends on the service provider's performance and on Hydro-Québec Distribution's decision to exercise the contractual options at its discretion.

The performance of the overall project also depends on i) its approval by the Hydro-Québec Board of Directors, ii) obtaining authorization for the project from the Régie de l'énergie, and iii) the commercial and technical success of the pilot project.

In our opinion, the parties' classification of the amounts stated in the notice of award as being "maximum amounts" expresses their intent to establish a ceiling on Hydro-Québec Distribution's financial obligations under the contract.

A list of the contractual documents is appended to the notice of award. These documents specify in more detail the contractual agreement entered into between Hydro-Québec Distribution and the service provider and complete the agreement. These contractual documents are described in descending order of priority, with the documents listed first having priority over the documents listed last.

These contractual documents include a final price schedule. This document contains a statement of costs for the overall project. The total of the costs corresponds to the amounts stated in the award notice for the pilot project and the bulk deployment. The final price schedule also contains a cost breakdown of the accessories and of the performance in excess of the agreed target. These two amounts correspond to the amounts stated in the notice of award for these items.

The list of final price schedules is followed by a document entitled "Specific Clauses." This document sets out the detailed provisions that govern the essence of the contractual relationship between the parties. In our opinion, these provisions constitute customary business terms and conditions for this type of contractual agreement.

The "Specific Clauses" set out in particular detailed provisions relating to: i) the contract term, ii) rights to terminate, iii) the service provider's staff and its training, iv) the installation procedures for the meters, including customer service, v) distribution of responsibilities, vi) transportation, warehousing and management of the inventory, vii) planning, viii) protecting confidential information, ix) Hydro-Québec Distribution's audit rights, x) information and communications technologies, xi) evaluation of performance, xii) payment terms, including performance holdbacks and penalties, xiii) installation warranty, xiv) dispute settlement, and xv) terms and conditions of compensation.

The "Specific Clauses" document is followed by other customary contractual documents. These documents include, among others: i) Hydro-Québec Distribution's "General Clauses" which set out the general terms and conditions in Hydro-Québec Distribution's contacts with relevant

amendments, ii) a statement of work, iii) certain documents relating to the call for proposals process, and iv) a guarantee from the parent company regarding contract performance by the service provider.

Overall, these contractual documents are not only customary, but they also limit Hydro-Québec Distribution's vulnerability to uncertainty or financial risk.

For the pilot project, the standard installation and special installation of the intelligent meters are established at unit prices. These unit prices include all costs associated with these respective installations.

It is the service provider's responsibility to participate in establishing an interface between its network and that of Hydro-Québec Distribution for the bulk deployment. A fixed lump-sum price is set for this work.

If Hydro-Québec Distribution decides to proceed with the bulk deployment, unit prices are set for the standard installation and the special installation, according to zone. The service provider is installing intelligent meters only in zones 1 and 2. Each unit price includes all costs associated with these installations. The unit prices may be adjusted annually, after the spring of 2014, according to the consumer price index.

In the case of warnings of trouble spots, theft and damaged sensors or regulators, the service provider receives the unit price for a standard installation in the applicable zone, even if the meter has not been replaced.

According to the option exercised by Hydro-Québec Distribution, the service provider also invoices monthly for certain accessories, such as adapters and mounting rings.

The contractual agreement also provides for incentives to encourage the service provider to meet its performance objectives.

If the service provider does not comply with the agreed target installation rate, then a performance holdback is applied. This performance holdback becomes a penalty against the service provider if the performance remains below target.

If the service provider's performance is above target, it is then entitled to additional unit prices, according to how much it exceeded its target and the relevant zone; however, Hydro-Québec Distribution may discontinue this incentive. The service provider is also entitled to additional fixed compensation if the number of customer complaints received is less than the target minimum.

### III. Conclusion

In sum and on the basis of our examination above, we are of the opinion that the contractual agreements entered into between Hydro-Québec Distribution and the supplier, and between Hydro-Québec Distribution and the service provider, were entered into in accordance with customary business terms and conditions, for the purpose of achieving their objective at as firm a contract price as the circumstances of the Remote Meter Reading Project permit.

In order to issue this opinion, we have relied on information obtained from Hydro-Québec representatives as to certain points of fact, including the documents examined and documents

that may be examined.

We are not expressing an opinion as to the laws of any territory, with the exception of the existing laws in Quebec.

This opinion is limited to the questions expressly mentioned above and no opinion is understood or may be presumed beyond the questions expressly stated. This opinion is not intended to be a comprehensive summary of the contracts. We are not bound to notify you of any future change in the facts relating to the questions covered by this opinion.

We are issuing this opinion as Hydro-Québec's legal counsel and only for Hydro-Québec's information with regard to the question stated above in the introductory paragraphs. This opinion may not be cited or mentioned in whole or in part in any document, and no other person or entity may rely on it without our prior written consent.

However, we consent to deliver a copy of this opinion to the Régie de l'énergie for specific information in satisfaction of its regulatory obligations. Such delivery is subject to the same reservations stated above.

Sincerely,

[signature]