

INDEPENDENT DIRECTORS COMMITTEE

TERMS OF REFERENCE

Establishment of Committee and Procedures

1. Committee

A Committee of the Directors to be known as the "Independent Directors Committee" is hereby established. The Committee shall carry out the obligations assigned to them by the Limited Partnership Agreement as amended and restated from time to time.

2. Composition of Committee

The Committee shall consist of all independent directors on the Board. "Independent directors" are those Directors who have no direct or indirect material relationship with the Partnership or Capital Power Corporation, ("Capital Power") or any of its subsidiaries which could, in view of the Board, reasonably interfere with the exercise of their independent judgment.

3. Appointment of Committee Members

The Board shall appoint all independent directors to serve as members of the Committee and such members shall remain members until replaced or until they cease to be Directors of the General Partner of the Partnership.

4. Lead Director & Committee Chair

The Lead Director chairs the Independent Directors Committee and otherwise seeks to ensure that the responsibilities of the Independent Directors are well understood by the Independent Directors, the Board and Management and that the boundaries between the General Partner and the Manager are clearly understood and respected. The primary responsibilities of the Lead Director are therefore to (i) seek to ensure appropriate structures and procedures are in place so the Board can function independently of management; and (ii) lead the process by which the Independent Directors Committee seeks to ensure that the General Partner's Board represents and protects the interests of all limited partners.

The Lead Director's duties and obligations also include:

- a) liaising with the Chair of the Board and providing input and advice relative to Board agendas and minutes, the strategic plan and other matters of concern raised by the independent directors;
- b) chairing meetings of the Board when the Capital Power-elect representatives have withdrawn from any meeting and/or when the Chair of the Board is otherwise not available;
- c) maintaining liaison and communication with all independent directors;

- d) meeting with and advising senior officers and managers of Capital Power or CPI Income Services Ltd. on behalf of the Partnership's independent directors on any matters or concerns such independent directors may have and reporting back to the Independent Directors Committee regarding management's resulting activities or undertakings;
- e) providing input and recommendations of a strategic nature on the Partnership's relationship with Capital Power;
- f) providing leadership and advice respecting all non-arm's length negotiations between Capital Power and the Partnership;
- g) seeking to ensure appropriate communication links exist between the Partnership's senior management and the independent directors;
- h) calling and chairing meetings of the independent directors;
- i) establishing agenda for Independent Directors Committee meetings that address areas within the Independent Directors Committee's responsibility and seeking to ensure that Independent Directors Committee information packages and presentations are focused and of appropriate length, content and context to support sound decisions;
- i) leading the process by which the Independent Directors Committee obtains advice from sources independent of Capital Power in seeking to ensure that the interests of all limited partners are protected;
- j) encouraging full participation by independent directors in, and constructive debate of issues at, Independent Directors Committee meetings, creating an open atmosphere in which independent directors may ask questions or dissent freely;
- k) seeking to ensure that the Independent Directors Committee can act as, and in the stead of, the Board of Directors in respect of non-arm's length negotiations between Capital Power and the Partnership when Capital Power-elect representatives are operating under conflict of interest;
- l) seeking to ensure that accurate minutes of Independent Directors Committee meetings are recorded and maintained; and
- m) communicating with the President, Chair of the Board and Corporate Secretary, as appropriate, between meetings.

The Lead Director is nominated by the independent directors and such nomination considered by the Governance Committee and recommended to the Board of Directors for approval. Once so appointed, the Lead Director serves at the pleasure of, and reports to, the Board.

5. Absence of Lead Director

If the Chair of the Committee is not present at any meeting of the Committee, one of the other members of the Committee present at the meeting shall be chosen by the Committee to preside at the meeting.

6. Secretary of Committee

At the pleasure of the Committee, the Corporate Secretary of the Partnership shall be the Secretary of the Committee.

7. Meetings

The Chair, or any two members of the Committee, may call a meeting of the Committee. The Committee shall meet after Board meetings in-camera and as required.

8. Quorum

Two members of the Committee, present in person or by telephone or other electronic communication device that permit all persons participating in the meeting to speak to each other, shall constitute a quorum.

9. Notice of Meetings

Notice of the time and place of every meeting shall be given in writing or facsimile communication to each member of the Committee at least 24 hours prior to the time fixed for such meeting; provided, however, that a member may in any manner waive a notice of a meeting and attendance of a member at a meeting is a waiver of notice of the meeting, except where a member attends a meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting is not lawfully called.

10. Attendance of Partnership Officers at Meeting

At the invitation of the Chair of the Committee, one or more officers of the Partnership or Capital Power may attend any meeting of the Committee.

11. Procedure, Records and Reporting

The Committee shall fix its own procedure at meetings, keep records of its proceedings and report to the Board when the Committee may deem appropriate.

12. Review of Mandate and Performance Assessment

The Committee shall review its mandate annually or otherwise, as it deems appropriate, and propose recommended changes to the Governance Committee for review and reference to the Board. The Committee shall also conduct a periodic self-evaluation of the performance of the Committee of its responsibilities in accordance with the Committee mandate. The Committee shall report the results of its evaluation to the Governance Committee and such report may be an oral report by the Committee Chairman.

13. Experts

The Committee Chair, on behalf of the Committee, and any member with the consent of the Committee Chair, is authorized when deemed necessary or desirable to retain independent professional advisors or experts of whatever background or specialty, at the Partnership's expense, to advise the Committee or the member independently in respect

of any matter related to their service on the Committee or as may be necessary or desirable in order to properly discharge the Committee's duties and responsibilities.

14. Mandate of Committee

The Committee shall be responsible to review, and if thought appropriate, recommend to the Board for approval:

- (a) All material transactions or agreements between the Partnership and Capital Power or its associates or affiliates; and
- (b) All material amendments to, or the renewal of, any non-arm's length power purchase agreements between the Manager (and/or its affiliates) and the Partnership.

15. Balance of Interests

In connection with their duties as directors generally, Independent Directors will have regard for the position and interests of the public unitholders, with a view to anticipating the instances in which the interests of Capital Power and such unitholders may diverge, so as to ensure in any such instances that the Partnership conducts itself and its business and affairs on the basis of full and timely disclosure of the relevant facts and circumstances to all directors and with due regard to the position and interests of the public unitholders generally.

16. Advance Notice of Matters

The Committee shall be provided with notice, as early as reasonably practicable, of any matter or thing which, if it was to proceed or be pursued, might reasonably be anticipated to require the involvement or approval of the Committee having regard to the role, duties and responsibilities of the Committee. It is recognized that early notification to and involvement of the Committee will enable it to more properly discharge its duties and enhance its ability to minimize any divergence or potential divergence between the interests of Capital Power and the interests of the Partnership's public unitholders. The Partnership President shall be responsible for such early notification and shall, wherever any reasonable doubt exists as to whether any matter may ultimately require the Committee's involvement or approval, the President shall err on the side of notification. In all events, the Committee will be provided with full, complete and timely access to all such information and personnel as it may reasonably request in connection with the discharge of its duties.