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Minister of Energy

Hearst Block, 4th Floor
900 Bay Street
Toronto ON M7A 2E1
Tel.: 416 327 6715
Fax: 416 327 6754

Ministre de l'Énergie

Édifice Hearst, 4e étage
900, rue Bay
Toronto ON M7A 2E1
Tél.: 416 327 6715
Télééc.: 416 327 6754



May 31, 2004

Mr. Gunars Ceksters
President and Chief Executive Officer
Enersource Hydro Mississauga Inc.
3240 Mavis Road
Mississauga, Ontario
L5C 3K1

Fax: (905) 566-2701

Dear Mr. Ceksters:

In my letter dated December 19, 2003, I conveyed the government's intention to permit local distribution companies (LDCs) to apply to the Ontario Energy Board (OEB) for the next instalment of their allowable return on equity beginning March 1, 2005. I also indicated that the OEB's approval in regard to the final instalment should be conditional on a financial commitment to reinvest an amount equal to one year's incremental returns in conservation and demand management initiatives.

A number of LDCs have indicated a desire and ability to begin making investments in such initiatives immediately. Recognizing that demand-side management is a critical means of ensuring a sustainable and reliable supply of electricity in Ontario, I am committed to facilitating these near-term investments. I am therefore writing to you pursuant to section 79.6 of the *Ontario Energy Board Act, 1998* to allow you to proceed to the OEB with an application to establish a deferral account – in advance of your ability to recover such costs through the next installment of the allowable return on equity next March – within which to track expenditures on conservation and demand management initiatives.

With respect to short-term initiatives, I expect you to pursue a broad range of programs that support the more efficient use of electricity in Ontario, including those that were discontinued on the opening of the electricity market, to reduce customers' overall energy demand and/or demand for purchased energy.

In order to expedite short-term actions, I fully expect you to require some assurance with respect to conservation proposals that would be considered for the purposes of cost recovery. In this regard, without limiting the range of innovative proposals that may be brought forward, I believe that reasonable new expenditures on the planning, delivery and evaluation of the following specific measures should be supported by the Board:

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- energy efficiency;
- behavioural and operational changes, including the application of benchmarking or "smart" control systems;
- load management measures which facilitate interruptible and dispatchable loads, dual fuel applications, thermal storage, and demand response;
- measures to encourage fuel switching which reduces the total system energy for a given end-use;
- programs and initiatives targeted to low income and other hard to reach consumers; and
- distributed energy options behind a customer's meter such as tri-generation, co-generation, ground source heat pumps, solar, wind, and biomass systems.

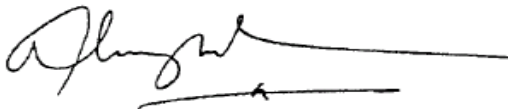
Obviously, the prudence of actual expenditures in these areas will ultimately be determined by the OEB.

I believe that a number of opportunities exist for LDCs to lever incremental investments through partnerships with governments, such as Natural Resources Canada and the Canadian Federation of Municipalities, and with local community-based conservation agencies and authorities. I have therefore asked the Board to give priority to proposals that leverage, and thereby maximize, the financial investments of LDCs when using their next instalment of allowable return on equity.

Over the long-term, the specific nature of LDC initiatives, and related recovery issues, will be at the OEB's discretion. To ensure that the sustainable regulatory framework developed by the OEB is consistent with the government's overall policy objectives in this area, I will be providing the OEB with the government's policy objectives and direction with respect to "smart" metering very shortly. In addition, I would expect the framework to remove barriers to demand-side management, provide incentives to manage distribution systems more efficiently and ensure consumers benefit from reduced energy use. Conservation assets should be included in the rate base.

I appreciate your assistance in the promotion of a conservation culture in Ontario.

Sincerely,



Dwight Duncan
Minister

c: Howard Wetston, Chair, Ontario Energy Board