



June 15, 2006

DIRECT ENERGY'S PRELIMINARY COMMENTS

OEB STAFF MAY 8, 2006 DISCUSSION PAPER OPTIONS FOR SETTING PAYMENTS FOR OPG PRESCRIBED ASSET OUTPUT

- Direct Energy generally endorses the comments in this matter circulated by Constellation and the Ontario Power Authority.
- It is imperative that the Board consider the impact of designated asset pricing and revenue setting on Ontario's wholesale electricity market (both the real time and the contract market).
- In particular, given that OPG owns and operates most of Ontario's base load generation capacity, any regulatory mechanism adopted must provide incentive for OPG to bid on a commercial basis into the real time market, and to sell forward when and as commercially appropriate in the contract market.
- A functioning forward wholesale power market is essential to:
 - Provide generation investors with tools to manage, and thus assume, investment risks. The greatest single exigency facing Ontario's power market today is the need to secure cost effective, and economically efficient, investment in new generating capacity.
 - Provide liquidity to support alternative supply and pricing options for customers. Without forward supply retail supply options will be removed from the market.
- The Board's mandate to;
 - protect the interests of consumers with respect to prices and quality of electric service; and
 - promote economic efficiency, cost effectiveness and financial viability in Ontario's electricity industry;

requires the Board to take a broad view in this matter, as advocated by Constellation, the OPA and others. Regulation is a (second best) substitute for competition, and any solution now adopted should harness available market mechanisms, and take a view to the preferable longer term solution, within the broader context of Ontario electricity sector restructuring.

- Direct Energy is concerned with the proposition set out in the draft paper that the "regulatory contracts" option is the most complicated of the three alternatives put forward. We note that a full system for settlements of analogous arrangements in place today with the OPA has been functioning well for some time.
- Direct Energy strongly encourages a full review of the "regulatory contracts" option in the coming weeks.