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VIA E-MAIL AND COURIER

June 29, 2006

Mr. John Zych
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 26th Floor
Toronto, ON M4P 1E4
E-mail: boardsec@oeb.gov.on.ca

Dear Mr. Zych:

Re: Determination of Payment amounts for Ontario Power Generation Inc.'s Prescribed Assets – Board File No: EB-2006-0064)

On behalf of TransAlta Energy Corporation ("TEC"), we wish to make the following conceptual submissions regarding Board Staff Discussion Paper V.2 ("V.2"). In light of the short period for consideration of V.2, TEC will be providing detailed comments after consideration of the next evolution of the Discussion Paper.

TEC disagrees with or has difficulty following many of the assumptions and assertions in V.2. Principal among TEC's concerns is the Staff view that a decision with respect to the prescribed assets can be made in isolation from the overall electricity system and market evolution in Ontario.

The policy of the Province of Ontario is that Ontario's electricity system exists in a "hybrid" model, where both regulated and competitive generating assets work together, to meet Ontario's electricity needs. At many different levels, the operation of the regulated assets affect the competitive assets and vice-versa. There is a symbiotic relationship which must be considered in any decision regarding the prescribed assets, which assets are the foundation of the regulated component of the hybrid model. In particular, implications for the day-ahead market and long-term forward markets, which are critical to market based competitive investment, must be considered.

Anything which may incent or otherwise affect the behaviour of OPG as a generator is of direct relevance to TEC and all market participants. The Board Staff suggestions regarding the sculpted capacity payments during seasonal and daily peak demand periods through the utilization of prescribed assets is only one example of market intervention which is of serious concern to TEC.

TEC is also concerned that the Board Staff have moved too quickly to a decision to recommend an incentive regulation model. Equal consideration should be given to the regulated contract model. TEC concurs with the London Economics conclusion in their report of May 19, 2006 to Board Staff. TEC disagrees with Board Staff regarding perceived difficulties in implementing regulated contracts. TEC has direct experience in this regulatory instrument, and views a regulated contract as an effective mechanism for regulating generation operations, revenues and overall behaviours within a long-term market evolution process. Given the importance of the decision to be made, TEC strongly supports further analysis of regulated contracts as a viable option for recommendation to the Board, prior to Staff finalizing its report.

Finally, TEC is concerned about Staff's recommended process for the piece-meal, multi-year design of the incentive regulation methodology. This approach appears to contemplate many years of major reviews, with the attendant investor uncertainty that occurs with such a long process. It will pit parties against one another in the design of the incentive methodology, which will be unique and by its very nature subjective, given the absence of comparable generator benchmarks. TEC is also concerned regarding Board Staff and the Board's capacity and capability to undertake such a major and novel regulatory and market design initiative.

The above comments have focused on key conceptual concerns which arise in V.2. TEC has further comments to be made, but in light of the short time before the issuance of the V.3, TEC will provide those detailed comments after considering V.3.

Yours truly,

Robert Power

Robert G. Power

RGPP:wif

Cc: P. Eastman, TransAlta Energy Corporation
S. O'Connor, TransAlta Energy Corporation