

The

D | *Distributors'*
E | *Electricity*
E | *Efficiency*
P | *Policy*

Group

A NEW PROPOSAL TO ADDRESS ONTARIO'S ELECTRICITY NEEDS



ERIE THAMES POWER
"Your Home Town Utility"



Oakville Hydro Corporation

Oshawa



PUC Networks Inc.

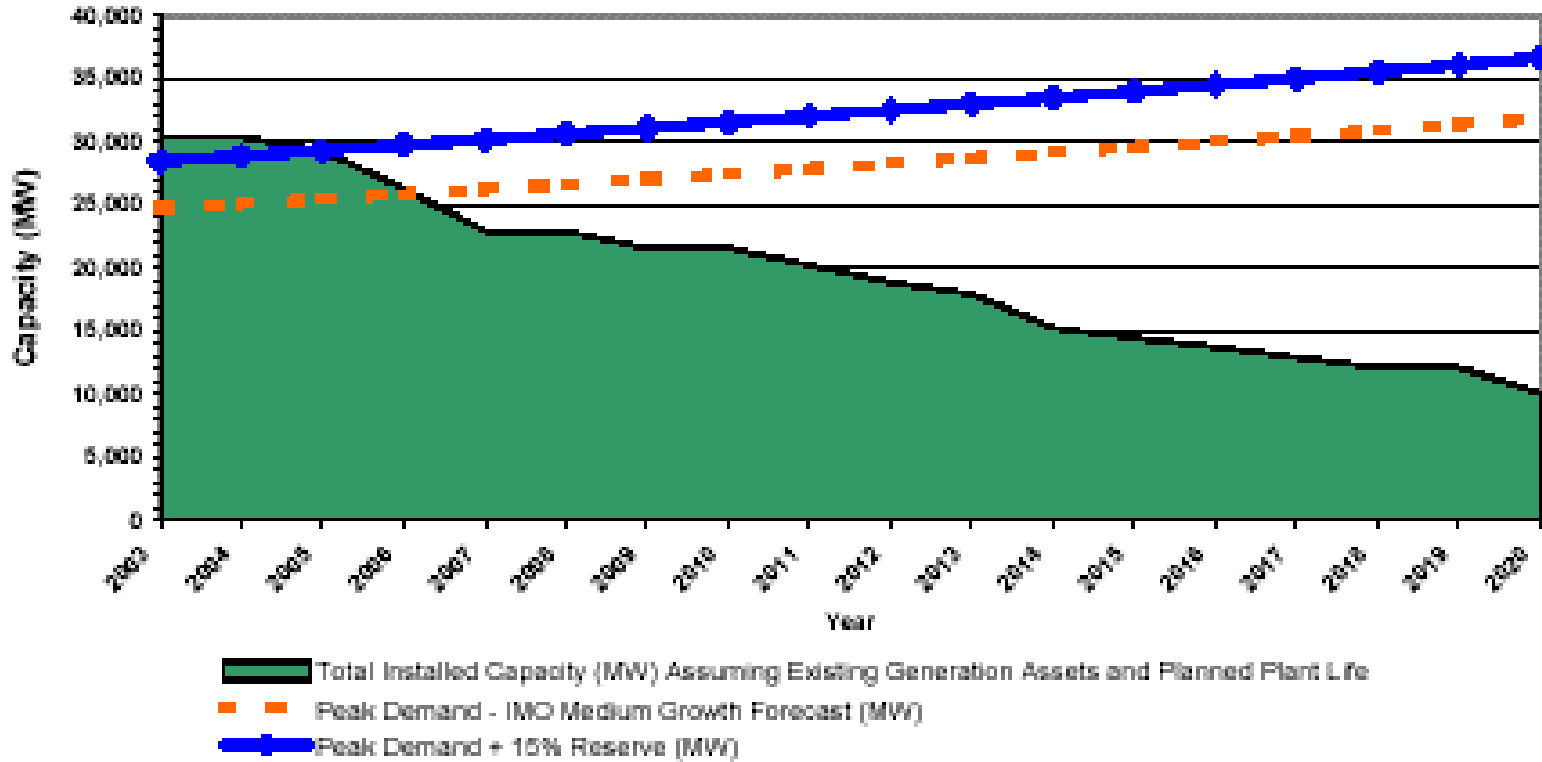
DEEP Members

- **Erie Thames Powerlines – 13K Customers**
- **Enersource Hydro Mississauga– 175K Customers**
- **Veridian Connections– 91K Customers**
- **Oshawa PUC Networks– 48K Customers**
- **Hydro Vaughan – 72K Customers**
- **London Hydro – 135K Customers**
- **Oakville Hydro – 55K Customers**

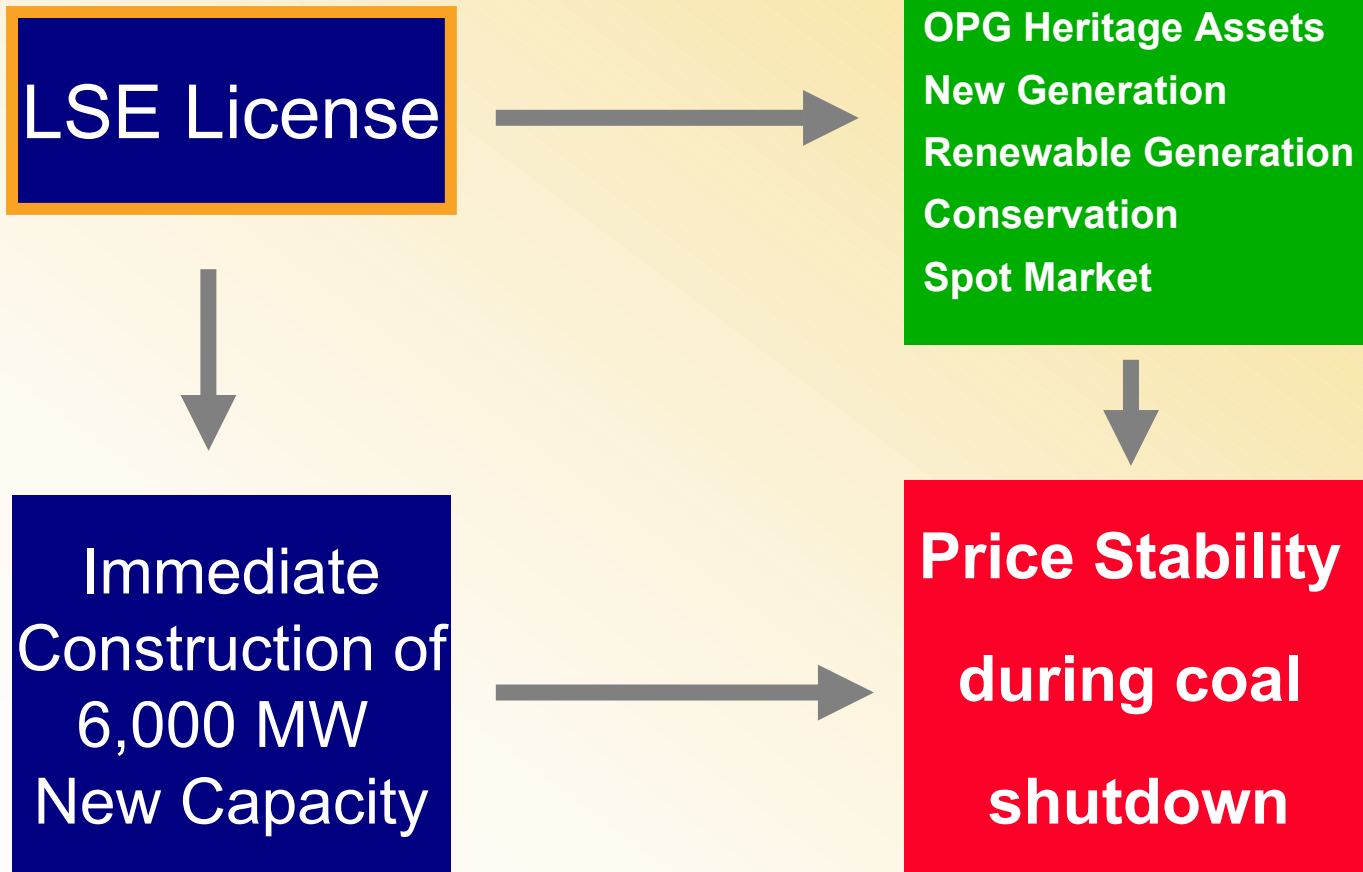
Total: 600,000 customers
Over 2,000 MW of Default Supply

Ontario's Current Capacity

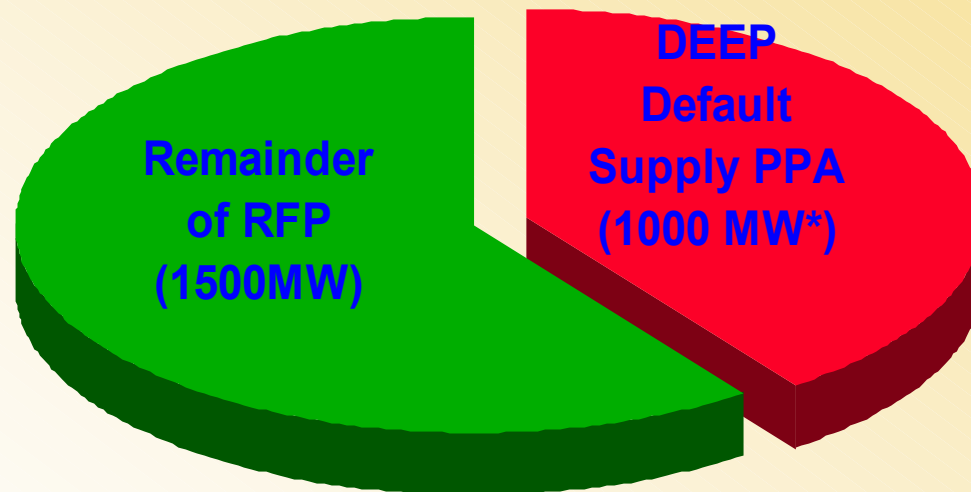
Existing Generation vs. Peak Demand



The LSE Solution

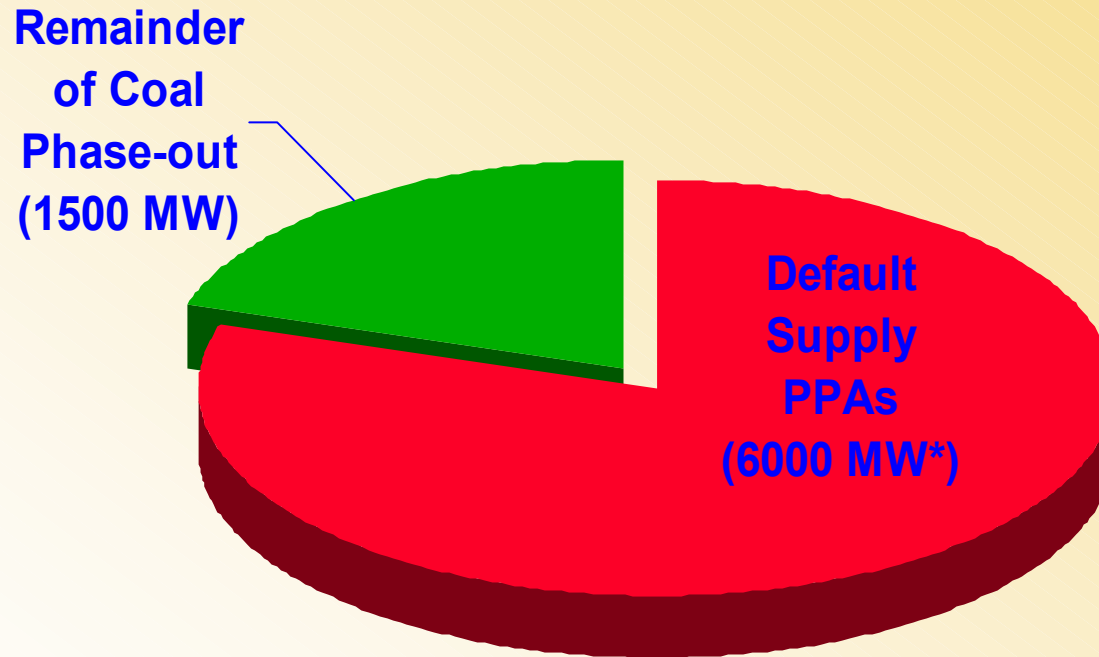


DEEP Default Supply Long-term PPAs could finance 40% of 2500 MW RFP



*1000 MW PPAs assumes 50% of DEEP's total Default Supply load procured through long-term contracts

Province-wide Default Supply PPAs could finance 80% of 7500 MW Coal Phase-out



*6000 MW of PPAs assumes 50% of total Ontario Default Supply load procured through long-terms contracts

DEEP Goals

1. Investment in new generation
2. Stable, predictable electricity prices
3. Portfolio electricity prices (based on market + heritage + conservation)
4. Conservation as fundamental part of supply portfolio
5. Encourage robust, liquid market with multiple credit-worthy buyers and sellers

Current Situation

- Uncertain Regulatory Framework
- Price Subsidies
- Stranded Debt
- No new Investment in generation
- Stagnant electricity market

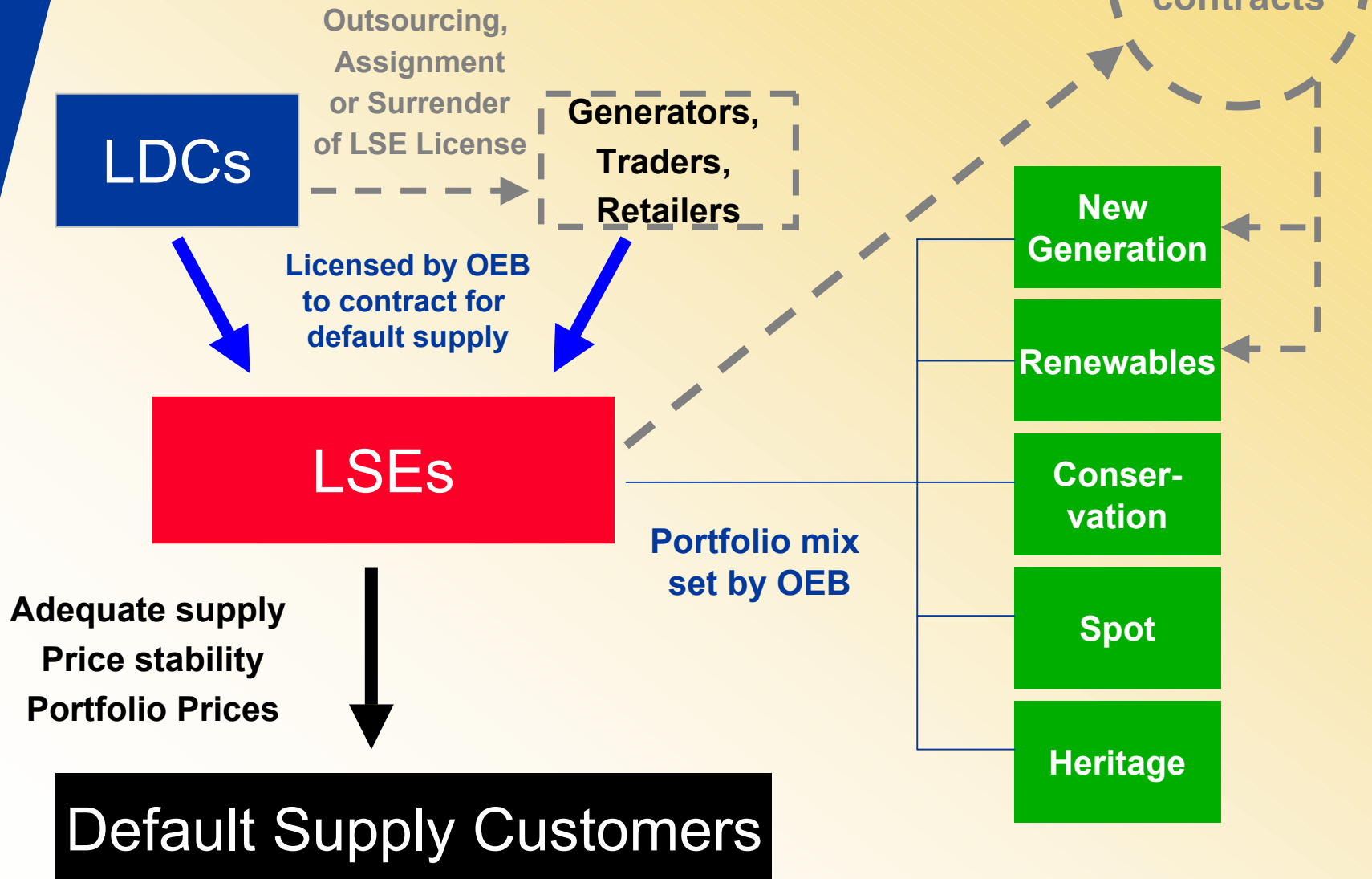


**Current
Situation
Unsustainable**

Single Government Purchaser Must be Transitional

- Puts the entire provincial default supply load at risk
 - Risk of over-priced load as a result of single contract or market event
- A single buyer prevents competition
 - Multiple buyers and sellers is best way to promote competition and new supply
- A provincial aggregator would be distanced from knowledge of local customer behaviour and load forecasting
- Centralized power planning has failed in Ontario, so would centralized purchasing
- Contingent liability on government's balance sheet

Proposed LSE Model



Necessary Conditions

- LSE full cost recovery from customers
- Fixed return/margin for LSEs; prices adjusted quarterly
- Contract portfolio mix set by OEB
- LSEs to contract for adequate supply
 - Imposed by OEB and monitored by IMO
 - Adequacy obligations to include conservation

Benefits

- Price stability for customers
- Portfolio prices
- Distributed generation
- More renewable energy
- Conservation
- Diversified risk
- Elimination of coal generation
- Immediate investment in New Generation



LSE Licensing

- New class of license issued by OEB:
 - “LSE License”
 - LSEs attached to distribution service area
- Initially, all LDCs receive an interim LSE License
- LSE License – length decided by OEB

LSE License: “Use it” or “Do Nothing”

➤ LDC has 2 options for dealing with LSE License:

1. Use It

A. Exercise it

- LDC becomes an LSE for its service territory
- LDC becomes LSE in a co-op or limited partnership with others (e.g. ENERconnect)

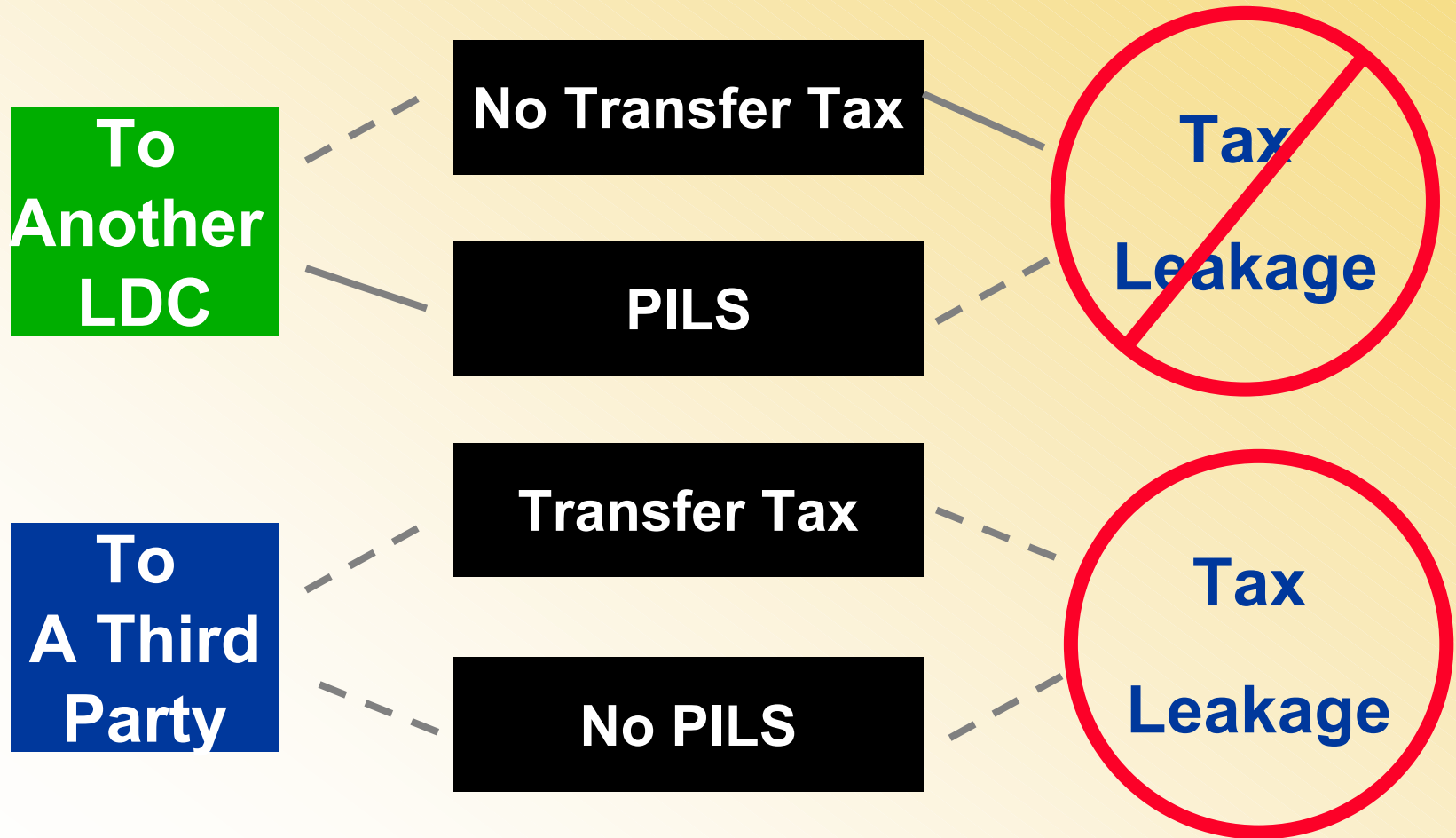
B. Sell or lease it (subject to OEB consent)

- To another LDC
- To a third party

2. Do Nothing / “Surrender” it

- If LDC does not exercise or sell or lease within 180 days, LSE license is deemed surrendered by default
- OEB responsible for reassigning it

Selling or Leasing



Surrender of LSE License

- Upon surrender, OEB would accept applications/bids for reassignment of LSE License
- OEB reassignment process must have:
 - Objective and transparent criteria
 - Level playing field between LDCs and third parties
 - Encourage Economies of Scale
 - LSE's own administrative costs
 - Increased LSE purchasing power
 - OEB's regulatory administration costs
 - Right of first refusal to neighbouring LSE
 - Encourage Market with Many Buyers and Sellers

LSE License Conditions (established by OEB)

1. Portfolio Mix

- LSE must abide by portfolio mix set by the OEB

2. Prudence

- LSE must abide by OEB conditions for prudent purchasing strategies:
 - a. minimum no. of bids
 - b. approved contractual terms and conditions
 - c. approved counter-parties
 - d. approved portfolio management processes
 - e. approved risk management processes

LSE License Conditions

3. Obligation to serve

a. Low-volume

- LSE will serve all low-volume default customers
- LSE may impose OEB-approved conditions on returning default customers (i.e. notice req'mts)

b. Large-volume

- LSE will serve all large-volume default customers who must abide by OEB conditions regarding (i) notice of termination; (ii) credit support; (iii) min/max consumption

Portfolio Mix

➤ Length of Contract:

- Short term _____ to _____%}
 - Medium Term _____ to _____%}
 - Long Term _____ to _____%}
 - Spot Market _____ to _____%}
- Total 100%
-

➤ Source of Contracted Electricity:

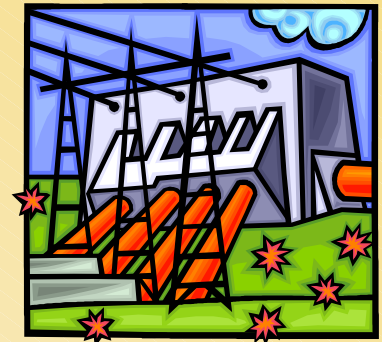
- New Generation _____ to _____%}
 - Renewable _____ to _____%}
 - OPG Heritage _____ to _____%}
 - Spot Market _____ to _____%}
 - Conservation _____ to _____%}
- Total 100%

Portfolio Mix

- **Length of Contract**
- A portfolio with various lengths of contracts provides price smoothing mechanism
 - Multiple renewal dates
 - Diversified price risk across multiple periods
 - Spot Market balances portfolio
 - Portfolio range of percentages

New Capacity

- By requiring 30-50% of default supply across Ontario (\cong **6,000 MW**) to be contracted with New Capacity, including renewables, IPP's would finally have the assurances they require to start building new generation to supply at least that amount of power
- *Result:*
 - **Construction of new supply**
 - **Multiple buyers and sellers**



Proposed Timeline

- Legislative changes in Spring 04
- Identity of LSEs determined by Fall 04
- LSEs take 6 months to shop for and sign short, medium, long term PPAs (30-50% with New Supply): by Spring 05
- First PPAs to come into effect Jan 1, 2008

Proposed Timeline

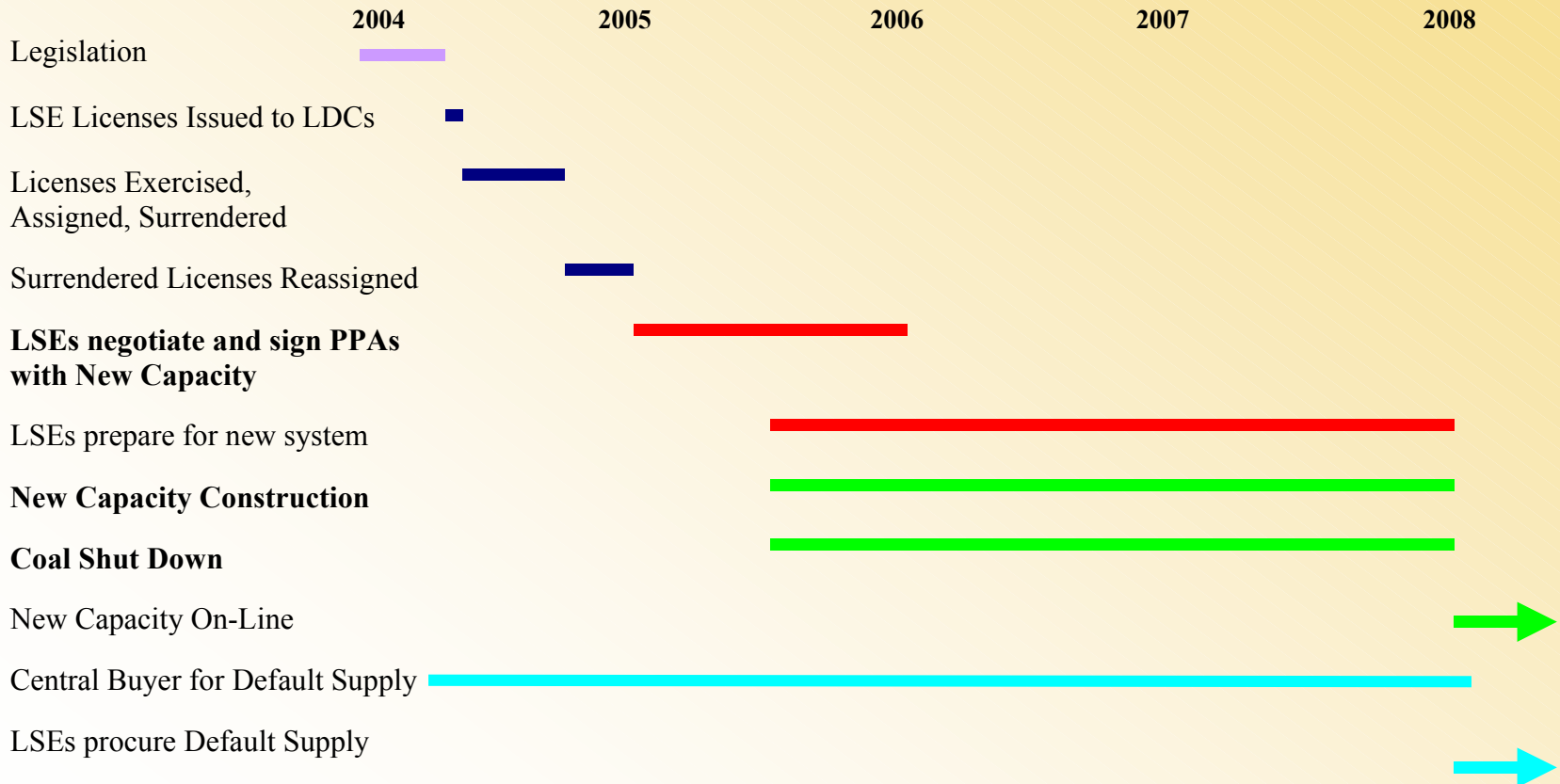
- IPPs, with signed PPAs in hand, then have about 3 years to finance and construct at least 6,000 MW of New Capacity to fulfill the PPA obligations
- Shut down coal as New Capacity comes on line
- All coal gone by Jan 08; New Capacity on line by Jan 08.



Transition

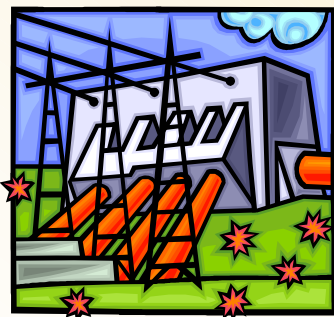
- In the interim (Spring 04 to Jan 08), adopt Task Force plan of having a central agency (IMO or OEFC) enter into 3 year PPA with Existing Capacity to supply default customers, distributed through LDCs

Proposed Timeline



DEEP Commitment

- DEEP would contract for 1000 MW of new capacity immediately
= enough to replace Lakeview
- Represents 40% of the 2500 MW RFP



Required Government Action

- Create Regulations to Allow LDCs to Act as LSEs:
 - Allow PPAs
 - OEB oversight
 - Allow conditions to be imposed on certain customers (returning low-volume and all large-volume customers)
 - Transition plan



“Give us the tools and we’ll finish the job.” – *Sir Winston Churchill*

“Give us the **rules** and we’ll finish the job.” – *The DEEP Group*