

MEMORANDUM

Date: October 23, 2006

To: Bruce Campbell, Independent Electricity System Operator

From: Todd Williams

Subject: Consumer Electricity Price Impact of Wholesale Electricity Market Price Change

This memorandum summarizes the results of Navigant Consulting's analysis of the consumer electricity price impact of a wholesale electricity market price change, after consideration of the impact of the Global Adjustment and the OPG Rebate.

As requested, we have done this analysis on both a retrospective basis (for the period November 2005 through April 2006 inclusive) and a prospective basis (for 2007 and 2008 inclusive).

Navigant Consulting has an in-depth understanding of the contractual, legislative and regulatory arrangements underlying the Global Adjustment and the OPG Rebate. In supporting the Ontario Energy Board (OEB) in their determination of prices for the Regulated Price Plan (RPP), Navigant Consulting forecasts the impact of the Global Adjustment and the OPG Rebate on consumer prices. We also track the output of key generators covered by the Global Adjustment and OPG Rebate as part of our ongoing RPP support to the OEB.

In addition to providing a wholesale price forecast, Navigant Consulting's wholesale market simulation model also provides forecasts of the output of each generator in the Ontario market. This forecast output data, coupled with key parameters of the contract price and/or contract structure for each generator type (eg, renewables contract, CES-type contract, etc.), is the basis for our RPP price forecasting support to the OEB and for proprietary consumer price forecasts that we provide on an ongoing basis to various clients, including large Ontario consumers.

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Retrospective Results

Based largely on data that is publicly available (originally from the IESO website and summarized on the OEB RPP site), we estimate that the impact of the Global Adjustment and OPG Rebate during the period from November 2005 through April 2006 would have been to mitigate any change in wholesale market prices by at least 80%. The specific data underlying this analysis, and source of the data is shown in Figure 1.

Figure 1: Output of Key Generators subject to “Fixed Price Contracts” in Ontario (November 2005 through April 2006)

"Contracted" Generation	November 2005 through April 2006 (TWh)	Source / comments
OPG Nuclear	24.6	OEB RPP Variance Reports
OPG Baseload Hydro	9.0	OEB RPP Variance Reports
85% of OPG Coal (Non-prescribed)*	11.2	OEB RPP Variance Reports
85% of OPG Peaking Hydro (Non-prescribed)*	7.3	OEB RPP Variance Reports
Bruce A	5.5	IESO generator disclosure reports
Total Contracted Generation output	57.6	
Total Market Demand	77.2	OEB RPP Variance Reports
Contracted Generation as % of Total Market Demand	75%	

* 85% of OPG's non-prescribed output, less the volume of any forward contracts in effect as of January 1, 2005 are subject to the revenue limit

Note that Figure 1 does not include:

- Various Non-Utility Generators (NUGs) that signed long-term contracts with Ontario Hydro and that are now managed by Ontario Electricity Financial Corporation
- Renewable generators that would have come on-stream during the period, and
- Any Early Mover generators that entered into CES-type contracts with the Ontario Power Authority during the period.

Had these generators been included in our analysis, the contracted generation as a percentage of total market demand would have been well in excess of 80%.

While the nature of the contracts, regulations and legislation governing the prices paid to these various generators vary by generator type, they essentially provide what amounts to a fixed price to the generator regardless of market prices (given the pricing in effect during the period). If market prices had been higher, these generator's revenues would have been adjusted to ensure they match their "contracted" price, either through the Global Adjustment mechanism or, in the case of OPG's non-prescribed assets, through the OPG Rebate.

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Based on this analysis, we estimate that the mitigating impact of the Global Adjustment and OPG Rebate during the period from November 2005 through April 2006 was at least 80%. In other words, if wholesale market prices had been 1% higher during the period, the consumer price impact would only have been 0.2% or less.

Prospective Results

Navigant Consulting undertook a similar analysis based on our most recent (Summer 2006) wholesale price forecast for the period 2007 and 2008. As discussed, our market simulation model provides forecast of the output of various generators. The output of the generators listed in Figure 1 above is forecast to be approximately 72% of total market demand for the period 2007 and 2008 after adjustment for the treatment of OPG's non-prescribed generation output.

As with the retrospective analysis, we have not included the forecast output of NUGs, renewables and generators under CES-type contracts in our analysis. Given the expected increase in renewable generation and generation under CES-type contracts through the end of 2008, this exclusion is more conservative than in the retrospective analysis.

Based on our analysis, we forecast that the mitigating impact of the Global Adjustment and OPG Rebate during the 2007 and 2008 period will be at least 80%. In other words, if wholesale market prices are 1% higher than they would otherwise be during this during the period due to a change in market conditions or market rules, the consumer price impact would only be 0.2% or less.

We would be pleased to answer any questions you may have on our analysis.

Sincerely,

A handwritten signature in blue ink, appearing to read "T. Williams".

Todd Williams
Associate Director