

September 29, 2006

The Honourable Dwight Duncan
Minister of Energy
900 Bay Street
4th Floor, Hearst Block
Toronto, ON M7A 2E1

Independent Electricity
System Operator
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Dear Minister Duncan:

Re: IESO 2007 – 2009 Business Plan

The IESO is pleased to provide you with our Business Plan for the 2007 – 2009 planning period. Under the Electricity Act, 1998, you have the opportunity to review and approve the proposed business plan prior to it being submitted to the Ontario Energy Board.

The IESO's 2007-2009 Business Plan sets out our strategic business objectives and priorities, and identifies the opportunities and challenges to the business over the planning period. Our strategic priorities have been stakeholdered and approved by the IESO Board. They are:

- Delivering a reliable supply of electricity on demand;
- Providing value in the IESO's services and products;
- Developing Ontario's electricity market through evolution of the IESO-administered markets;
- Responding to the needs and concerns of stakeholders; and
- Earning the trust of all stakeholders as a just administrator and capable advisor.

The 2007 – 2009 Business Plan also sets out the upcoming fiscal year's proposed revenue and expenditure requirements, and the fees we propose to charge. Building upon the fee reduction of over five percent in 2006, we are proposing an additional reduction in the IESO's usage fee by over ten per cent in 2007 from that currently charged to electricity customers (from \$0.909 to \$0.815 per megawatt hour), and expect to maintain or further reduce the usage fee in each of 2008 and 2009, respectively. Our strong performance in 2006 also means that we will be providing a rebate of some \$11.9 million to Ontario consumers, and have achieved year-over-year reductions in our total operating costs for four consecutive years.

As noted above, one of our key strategic priorities is the development of Ontario's electricity sector through market evolution initiatives. Over the period of the Business Plan, the focus of these efforts will be on the issues associated with the development of a Day-Ahead Market (DAM).

Dave Goulding
President and CEO
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Consistent with the evolution of the hybrid market, and depending on its final design, a Day-Ahead Market would:

- Provide the ability for participants to lock in a price for their electricity and not be subject to the risks inherent in real-time operations;
- Improve operational signals to generators, including improved coordination of gas and electricity markets;
- Increase commitment certainty for domestic generators;
- Make available better price signals for both consumers and producers to plan their business; and
- Reduce the failure of energy imports in real time.

Ontario's electricity infrastructure faces significant challenges. The IESO will continue to play a key role in meeting those challenges. In doing so, we will ensure that our activities continue to be efficiently and effectively coordinated with the Ontario Power Authority.

I would be pleased to discuss any inquiries you may have with respect to the IESO's 2007 – 2009 Business Plan.

Yours truly,

A handwritten signature in cursive script that reads "Dave Goulding". The signature is written in black ink and is positioned to the right of the typed name "Dave Goulding".

Dave Goulding

Enc.