



Power to Ontario.
On Demand.

September 30, 2005

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

Independent Electricity
System Operator
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Dear Minister:

Re: Independent Electricity System Operator
2006 - 2008 Business Plan

I am pleased to provide you with the Independent Electricity System Operator's Business Plan for the 2006-2008 planning period. As you know, the IESO is required to file the Business Plan with your office, for approval, prior to submission to the Ontario Energy Board on or before November 1, 2005.

The 2006-2008 Business Plan sets out the IESO's key business objectives over the three year planning period, the upcoming year's proposed revenue and expenditure requirements, and the fees we are proposing to charge. We are proposing to reduce the IESO's fee by over five per cent in 2006 from that currently charged to electricity customers, through a five cent per MWh reduction, from \$0.959 to \$0.909 per MWh. The IESO plans to extend the fee reduction through 2007 with an objective of achieving a further reduction in 2008. For the current year, careful management of our business has resulted in savings in 2005 that will result in a significant refund to consumers in the Ontario market - currently estimated to total \$8.9 million.

The IESO's key business objectives centre on our responsibilities for the continued operation and development of the hybrid market introduced by the provincial government. We also propose to address the reliability issues that arose during 2005 in advance of the summer of 2006.

We faced numerous challenges over this past summer in maintaining the reliability of the Ontario power system - including record demand, limited hydroelectric resources, environmental restrictions, transmission constraints and the repeated failures of the import transactions necessary to achieve reliable service for Ontario. Clearly this is a situation that we do not want repeated, and the IESO is committed to doing all it can to reduce reliability risks by the summer of 2006.

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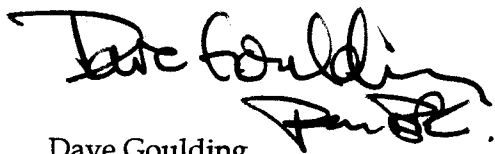
The provincial government's off-coal plan will be demanding for the IESO, and we will be active in addressing the issues that will inevitably emerge during this transition. The IESO will monitor and assess the coal shutdown and replacement plans and advise all parties, including the provincial government, as the phase out is implemented.

Our Business Plan recognizes the reduction in IESO accountabilities for long term forecasting and the transfer of the Market Surveillance Panel to the OEB. As you will see, we are working with the Ontario Power Authority and the OEB to ensure ongoing coordination in the efficient execution of our respective accountabilities, including the new responsibilities introduced for the OPA and the Energy Conservation Bureau.

In light of the work needed to address reliability issues before next summer, we are not proposing major capital investments around the Day Ahead Market in 2006. As a result, the capital investment anticipated in the Plan for DAM in 2006 will likely be delayed until 2007, recognizing the need to implement day-ahead market arrangements as increasing amounts of gas-powered generation comes into service in the province. This potential change in the capital program would not affect the 2006 fee.

I would be pleased to discuss the IESO'S 2006-2008 Business Plan with you.

Yours truly,

A handwritten signature in black ink that reads "Dave Goulding". The signature is written in a cursive, somewhat stylized font. Below the main signature, there is a smaller, more scribbled signature that appears to be "D. Goulding".

Dave Goulding

Enc.