



APPrO

ASSOCIATION OF
POWER PRODUCERS
OF ONTARIO

January 15, 2004

Dear electricity sector participant,

Ontario has finally made it!! After a long struggle and several delays, there is a competitive electricity business in Ontario. Ontario has a \$10 billion annual electricity market. We have seen setbacks, and there hasn't been much opportunity for new investment in recent years, but that is likely to change in the near future. We expect to see many new commercial opportunities for companies supplying generation, fuel, components, financing, and advice to that market.

APPrO would like to help you make the most of the new opportunities. This is our invitation for you to join the leading organization representing power producers, suppliers, consumers, marketers, consultants and other parties interested in the generation sector in Ontario, and become part of a growing sector that promises to be increasingly significant in years to come.

If we have learned anything from electricity restructuring in other jurisdictions, it is that there will be a lot that is unknown and unpredictable. There will be political, regulatory, and commercial developments on a daily basis. Ontario's electricity business is a complex and fast-moving environment. Getting a piece of this action, keeping it, and making money, requires sharp analysis and the latest information. That's where APPrO comes in.

If you already have information and you wish to enhance your profile in Ontario, APPrO is again the answer.

Ontario has a comprehensive stakeholder structure for the electricity business. The Market Design Committee and the Independent Market Operator (IMO - both Board and Technical Panel) were structured to include stakeholders. APPrO has been one of the major participants every step of the way, and through membership in APPrO you can be part of it.

Your organization is invited to become a member of the Association of Power Producers of Ontario (APPrO) as an important part of your participation in the Ontario electricity market. It's also one of the best ways to make your voice be better heard in the crucial places where decisions are being made.

You need not be a power producer to benefit from APPrO membership. A strong competitive market for generation increases the opportunities for many kinds of companies to do business in Ontario. Suppliers of equipment, fuel, consulting, financial and other services, marketers and consumers may not have the same direct interest as generators in influencing the specifics of the market rules. However, we are all critically interested in having top-notch information and to ensure that the final

result is a truly dynamic and competitive electricity market.

Our membership includes suppliers of fuel, project financing, hardware, and legal and technical advice - in other words, just about everybody that has a commercial interest in the development of a competitive electricity market in Ontario.

Please accept with my compliments the enclosed copy of our magazine, IPPSO FACTO, which is one of the benefits of membership in APPrO.

I hope to be able to welcome you as our newest member of APPrO in the very near future. Please feel free to contact me if there is any information or assistance that you would like.

Sincerely,

Jake Brooks
Executive Director

Get Plugged into the Ontario Electricity Market with APPrO

What is going on in the Ontario electricity market?

What new business development and marketing opportunities are opening up?

What is the government up to?

The restructuring of electricity markets from vertically-integrated, centrally-planned monopolies to competitive markets is proceeding around the world. In Ontario the old Ontario Hydro crown corporation monopoly is gone and a rules-based commodity trading market has opened. Customers can now choose their electricity provider.

Ontario has a \$10 billion annual electricity market. There will be many new commercial opportunities for companies supplying generation, fuel, components, financing, and advice to that market.

Generator Members

APPrO believes that everybody – customers, generators, and suppliers alike - benefits from an effective, competitive market in electricity in Ontario. The entire province will benefit from the new market that APPrO helped to create.

APPrO takes a special interest in the technical matters that effect generators. These issues can be of great financial importance to generators.

APPrO is the voice of generators at the IMO (Prudential requirements, outage scheduling, dispatch rules for cogenerators), the OEB (Transmission rate design and Performance Based Regulation, licences), the Ontario Electricity Finance Corporation (DCR replacement, transitional arrangements [with the IMO], and the government (emissions tracking and reporting).

When any of these agencies want to talk to the generation business, they call APPrO. APPrO is the generator's best source of information and best tool for aging access to government and other environments where the market rules are determined

Non-Generator Members

A strong competitive market for generation will increase opportunities for non-generators to provide their goods and services to the market. Suppliers of equipment, fuel, project finance, services, and consulting advice may not be as directly involved as generators in having input into the specifics of the market rules. However, we are all critically interested to ensure that the final result is a truly dynamic

and competitive electricity market.

The more new entrants there are into the Ontario electricity market, the more business opportunities there will be for those that provide goods and services to those generators. The better your information on the developing power market, the better your chances are of gaining a share of that business.

Our membership includes suppliers of fuel, project financing, hardware, and legal and technical advice - in other words, just about everybody that has a commercial interest in the development of a competitive electricity market in Ontario.

The IMO Technical Panel and the Ontario Energy Board (OEB - the provincial regulatory authority) are developing the market rules and regulatory framework for the new market. APPrO members – both generators and non-generators - have as a common objective, the advancement of a competitive electricity market in Ontario. They need to be represented at OEB proceedings in order to ensure organized input into both market rule development and regulatory decisions and timely information about developments.

Appendix I - Some Information on APPrO

Mission

APPrO's mission is "To promote the interests of electricity generators within a truly competitive power industry in Ontario."

APPrO's Objectives include the following:

1. Achieve a strong and healthy competitive market that provides equitable opportunities for all market entrants and participants.
2. Continue to be the credible voice of the industry to ensure transparency in the continuing evolution of the electricity market.
3. Achieve lower environmental impact of electrical generation.
4. Achieve a diversity of generation supply including improved efficiency, new technology and renewable resources.
5. To be the focal point for dissemination of information and education to the industry, its customers, governments and the public at large.

History

APPrO was founded in 1986 in response to a perceived need for additional generation capacity in Ontario to meet growing demand for power and for innovative solutions to technical problems.

Prior to the restructuring of the industry, APPrO represented most of the independent generators in Ontario, with a 5% share of Ontario's electricity supply. With the opening of the competitive electricity market on May 1, 2002, Ontario Power Generation has joined the organization. Soon after that the organization decided to change its name from IPPSO, the Independent Power Producers Society of Ontario, to APPrO as it is presently known. Our generator members now account for over 95% of electricity generation in Ontario and more than 30,000 MW of capacity. And we're not done yet!

APPrO has evolved from an organization representing mostly smaller projects with an environmental emphasis to a big business industry association representing billions of dollars of electricity revenues, and the most promising source of new power in Ontario.

Over the past seven years (since the start of the Macdonald Commission) APPrO has become the leading advocate for an open and competitive electricity market in Ontario.

APPrO has represented the competitive power industry at every important proceeding affecting the business since the provincial Environmental Assessment Board conducted hearings into Ontario Hydro's "Demand / Supply Plan" in 1990. APPrO is represented on the Ontario Market Design Committee, the Independent Market Operator (IMO) Technical Panel and the IMO Board of Directors.

APPrO Services

APPrO publishes a bi-monthly journal - IPPSO FACTO - which is generally regarded as "required reading" for any participant in the Ontario electricity industry.

APPrO organizes the best established and most important annual trade show and conference in the industry and other conferences as necessary to bring important information to our members.

APPrO "Participation Services" (See separate attachment) is the best source of up-to-the-minute day-to-day information on developments in the electricity market. Participating members get updates by e-mail and fax. They can join teleconferences discussing the latest events at the IMO, the OEB, the government, or whatever else happens that has an impact on our industry. In fact, it's one of the best ways for market participants to be directly involved in the development of the rules and systems that operate in Ontario's electricity market.

Appendix II - Results, Information, Leverage, Input, Standing

Results

OEB Transmission 2000 rate design hearings: APPrO has been a major presence before the OEB on the development of transmission rate design. The allocation of transmission costs can have a profound impact on the economics of any project embedded inside an industrial load or local distribution company, or seeking to export to neighbouring markets. And we won.

The OEB's decision that the cost of the existing transmission system should be allocated to loads based on the amount of electricity they draw from the pool (rather than the "gross" amount of electricity used - including electricity generated "behind-the-fence" that does not use the transmission system) will be worth millions of dollars to APPrO member as they develop new projects nested within loads or Local Distribution Companies (LDCs).

Transitional Arrangements with the IMO

APPrO is the primary conduit for the entire industry to work with the Ontario Electricity Financial Authority, the OEB, and the IMO when they want to discuss an “industry solution” with respect to transition issues.

For example, there are provisions of the existing NUG contracts that are inconsistent with the IMO Market Rules. APPrO worked with the IMO and OEFC to establish a transitional arrangement so that operations could continue after market opening and before those contracts have been finally re-negotiated with OEFC.

IMO Technical Panel

At the invitation of the Independent Market Operator (IMO), APPrO nominated one of the generator stakeholder positions on the IMO Technical Panel. APPrO has provided continuing liaison and support for activities at the technical panel. Material issued for TP discussion is distributed in advance to interested members of APPrO, who are invited to participate in regular teleconferences prior to each IMO Board meeting.

This process has addressed market rules issues that can directly affect a generator’s cash flow including:

Prudential requirements - ensuring that the credit requirements of the IMO do not place an unreasonable burden on generators.

Preservation of bilateral contract benefits for generators.

Outage planning - making sure that generator needs and priorities are properly considered in the process of determining outage plans. APPrO is working at the IMO to make sure that outage scheduling is fair and transparent.

Uplift and ancillaries cost allocation.

Import/export transmission rights and TR markets.

The devil is in the details, and so is the money. In some cases the direct financial benefit of causing (or preventing) some of these rules changes to generators can justify support for APPrO without considering any of the other services provided.

Timely, relevant information

Any firm with an interest in the Ontario electricity market needs the best information available for business planning. APPrO has established itself as a reliable and comprehensive source of information on developments in the Ontario electricity industry.

APPPrO provides a system for regular information-sharing among industry representatives working with the provincial government, the IMO and the OEB (e-mail, fax broadcasts, teleconferences, and regular face-to-face meetings for industry representatives with senior government officials).

Leverage your resources

Not only did APPPrO successfully represent its members at the Transmission Rate design case before the OEB, we did so in a cost effective manner. Members received the benefit of top flight legal and technical advice at a fraction of the cost to a given firm of mounting such an intervention on its own.

The Ontario electricity market restructuring process is remarkably open and receptive to input. But it is taking place on so many fronts that only OPGI and Hydro One (the successor company to Ontario Hydro that inherited the transmission system) have the resources to participate in them all without forming alliances.

By pooling the resources of its members, APPPrO has been able to retain the best expert counsel and advisors with regulatory and technical expertise to represent members' interests on the development of market rules, regulations, and the technical requirements to participate in the market. It allows our members to be meaningful participants without being forced to devote an unsustainable resource commitment - staff, lawyers, and consultants - to the effort.

Input to Government

The government (both the political and civil service) has demonstrated a consistent interest in listening to APPPrO. APPPrO delegations have regular meetings with the most senior members of government. APPPrO amplifies the voices of our members and is the best vehicle to express your views on market development to government.

Standing

Access has become a two-way street. APPPrO has come to be viewed as a resource by the government, the IMO, and the OEB. APPPrO is part of the process.

The OEB uses APPPrO as a vehicle to communicate with industry stakeholders on the development of licences for market participants. When the IMO wants to talk to the industry about training or market readiness, they call APPPrO. It's the best way to reach out to the industry given the unyielding time pressures to which everybody is subjected.

Staff at the various agencies have clearly demonstrated that they are personally and professionally concerned to do a first-rate job and to be seen as doing it right. They actively seek to benefit from commentary by the well-informed stakeholders representing considered industry views made available to them through APPPrO. The relationship is mutually-beneficial and this enhances APPPrO's ability to provide the best service to its supporters.

Appendix III - Active Ontario electricity market issues this year

OEB

1. OEB licensing process (Generator, retailer and wholesaler licenses)
2. Embedded generation issues
3. Detailed implementation of the Market Power Mitigation Agreement (MPMA - negotiated among the MDC, OPGI and the Ministry of Finance). This includes license conditions for OHSC and OPGI, Market Rules defined by the IMO and directives by the government to the OEB.
4. Transmission Rate Design.
5. Performance Based Regulation for OHNC.
6. Determination of IMO Fees.
7. Rules for Mergers Acquisitions and Divestitures.

IMO

1. Development of the IMO's institutional systems such as the Market Surveillance Panel.
2. Technical requirements (communications, computer hardware and software) for interface with the IMO that might be unnecessarily burdensome on new entrants ("gold-plating").
3. Development of IMO procedures and stakeholder consultation mechanisms
4. Development of the Market Rules including an emphasis on development of a Capacity Market, LMP, Day Ahead Commitment Market and alleviation of barriers to interjurisdictional trade
6. Retail and wholesale pilot programs.
7. Prudential requirements
8. Information disclosure issues
9. Outage planning

Government

1. Continued advocacy for developments to improve the market
2. Management of issues relating to existing NUG contracts.
3. Competition issues during the transition period
4. Renewable Portfolio Standard and related green power certification rules
5. Submissions on the restructuring of Hydro One to maximize reduction of stranded debt

Environment

1. Emissions Cap and Trade.
2. Recognition of environmental benefits of cleaner power.
3. Environmental labelling and disclosure.
4. Standards for "Green" electricity marketing.

Collaboration with other stakeholder groups

1. Association of Major Power Consumers of Ontario
2. Electricity Distributors Association
3. Ontario Energy Association
4. Canadian Energy Efficiency Alliance
5. Industrial Gas Users Association
6. Green Energy Coalition
7. Toronto Environment Alliance

Appendix IV - APPrO Board of Directors

Phillip Andres, Vestas - Canadian Wind Technology
Linda Bertoldi, Borden Ladner Gervais LLP
John Brace, Northland Power (APPrO President)
J. Thomas Brett, Gowlings
Jake Brooks (APPrO Executive Director)
Colin Clark, Great Lakes Power Limited
Colin Coolican, Regional Power Inc.
Mike Crawley, AIM PowerGen
Rob Cary, APPrO representative on the IMO TP
Andrew John, Bruce Power
Robert McLeese, Access Capital Corp.
Larry Moffatt, Toromont Energy Ltd.
Stephen Probyn, Probyn & Company Inc.
Safouh Soufi, SMS Energy-Engineering Inc.
Jim Twomey, OPG
Dick Way, TransAlta