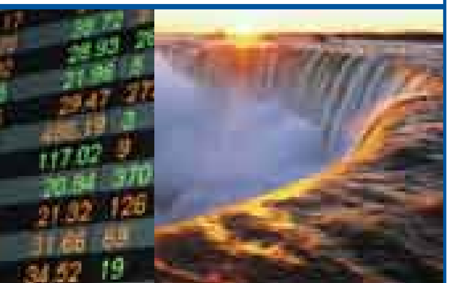

Laying the foundation for a sustainable electricity future

2006
ANNUAL REPORT

OPA
Ontario Power Authority™

Corporate Profile

The Ontario Power Authority (OPA) was established under the *Electricity Restructuring Act, 2004* and began operations in January 2005. A not-for-profit corporation without share capital, the OPA is governed by an independent Board of Directors appointed by the Minister of Energy, and its activities and programs are directed by a Chief Executive Officer. It reports to the Ontario Legislative Assembly through the Minister of Energy and is licensed and regulated by the Ontario Energy Board.

The OPA's mandate is to ensure an adequate, long-term supply of electricity for Ontario – a critical factor in the province's continued growth and prosperity. In pursuit of this mandate, the OPA is committed to meeting the expectations of all its stakeholders by operating responsibly, prudently and professionally.

"The OPA's mandate is to ensure an adequate, long-term supply of electricity for Ontario – a critical factor in the province's continued growth and prosperity."

The four key areas of focus are: building a culture of conservation, ensuring development of needed generation capacity, power system planning, and supporting the continued evolution of the electricity sector. The OPA's core value is to serve the best interests of Ontario's electricity consumers.

This 2006 annual report is intended to highlight the significant progress made by the OPA for the benefit of all Ontarians. It includes the audited financial statements.

Additional information on the OPA, its mandate, objectives, programs, activities and plans can be found on the Web site: www.powerauthority.on.ca.

2006 Highlights

Conservation

The OPA:

- launched 10 high-profile electricity conservation and demand management programs. These programs included the successful Every Kilowatt Counts program that reached 3.8 million households, a program to improve energy efficiency in social housing units, and a demand response program for industrial customers that contributed 182 megawatts to meeting the system peak electricity demand on one of the hottest days of the summer.
- established several important new partnerships to facilitate the development of an independent network of conservation delivery organizations. One such partnership was with the Building Owners and Managers Association (BOMA) to provide assistance with energy-efficient building retrofits to its members and others who operate large multi-tenant commercial buildings.
- successfully advocated for recently implemented energy-efficiency improvements in the Ontario Building Code.

Generation Development

The OPA:

- negotiated contracts for more than 1,500 megawatts of new clean energy supply.
- is now managing 38 electricity supply contracts covering more than 8,300 megawatts of generation. They include nuclear refurbishment, renewable and clean energy projects and combined heat and power facilities.
- launched the Standard Offer Program for Renewable Energy to facilitate development of smaller projects that use wind, water, solar or biomass energy to generate electricity and can be connected to the province's local electricity distribution systems. It is the first program of its kind in North America.

Power System Planning

- Solid progress was made towards completing an Integrated Power System Plan for Ontario, the first in more than 15 years. A preliminary version of the plan was issued in November, five months after receiving the required policy direction from the government. Throughout the process of preparing the plan, the OPA has consulted extensively with stakeholders.

Electricity Sector Development

- The OPA introduced long-term forward energy auctions – the first in Ontario – to help provide pricing stability to electricity users and suppliers.

Ontario Power Authority

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March 30, 2007

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

Dear Minister:

I am pleased to submit the Ontario Power Authority's 2006 Annual Report. The report provides an overview of the OPA's activities and accomplishments during the fiscal year ended December 31, 2006, and includes the audited financial statements.

Respectfully submitted,

Peter L. Jones
Chair

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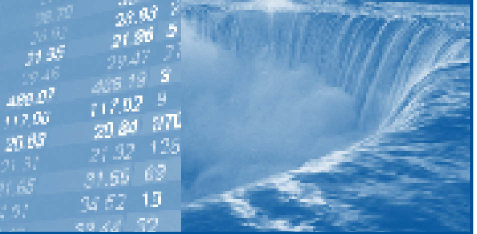


Message from the Chair and the CEO

PETER L. JONES,
CHAIR

JAN CARR,
CHIEF EXECUTIVE OFFICER

Since the establishment of the OPA in late 2004, its directors, officers and staff have been guided by one overriding principle: to serve and further the interests of Ontario's electricity users. Electricity is vital to every facet of modern life – in the home, at work, on farms, in schools and hospitals, across every community and sector of the economy, every hour of every day. Supply disruptions can have severe impacts on both consumers and the economy.

The OPA's mandate is to ensure an adequate, reliable, long-term supply of electricity for Ontario. That means leading coordinated, cost-effective, sustainable conservation efforts across the province; planning electricity supply and transmission infrastructure for the province 20 years into the future; taking necessary steps to procure needed new supply where the market is not meeting the needs; and helping the electricity sector transition to a more competitive structure that will transfer financial risks to investors and away from consumers or taxpayers and encourage more operational efficiencies. It also requires open, extensive and responsive communication and consultation with all those who have a stake in our mandate, including the general public, consumers, generators, distributors, transmitters, non-governmental organizations, local communities and other interest groups.

In 2006, the OPA's first year of full operation, we made solid progress — executing and expanding on plans formulated in 2005, implementing new programs and initiatives and continuing to lay the foundation for the electricity future Ontarians want, need and deserve.

The OPA was extremely active on the conservation front, remaining focused on developing programs for immediate implementation to meet Ontario's short-term electricity conservation targets while also building a base for longer-term, sustainable conservation and the creation of a culture of conservation. During 2006, 10 new conservation and demand management programs were launched, and the development of another nine programs began. As the Chief Energy Conservation Officer noted in his 2006 annual report, a new era of electricity conservation has begun in the province.

"In 2006, the OPA's first year of full operation, we made solid progress – executing and expanding on plans formulated in 2005, implementing new programs and initiatives and continuing to lay the foundation for the electricity future Ontarians want, need and deserve."

As one indicator, following the introduction of the OPA's Every Kilowatt Counts program, which provided energy-saving tips and money-saving coupons to every household in the province, research showed that the number of Ontarians who were aware of conservation initiatives rose from 64 to 77 percent.

Completion of the Integrated Power System Plan for Ontario is a high priority. In June 2006, the Minister of Energy responded to the OPA's *Supply Mix Advice Report*, submitted in late 2005. The Minister accepted the OPA's recommendations while increasing the target for conservation and demand management efforts and limiting the maximum contribution of nuclear power to historical levels.

Following the Minister's response, an extensive communication and stakeholder consultation process was undertaken, including advertising in a broad cross-section of community newspapers for the public to get involved, the creation of a special Web site, publication of eight discussion papers, open teleconferences and Web conferences, workshops and consideration of written submissions. In November, just five months after the policy direction was received, a preliminary plan was completed and released for further stakeholder consultation. The final version will be submitted to the Ontario Energy Board in 2007. After a full regulatory review, we expect that in 2008 Ontario will have an approved power system plan that will set out the programs and facilities that will be needed over the next five years, the preliminary work needed for the subsequent five years and the direction for 10 years after that.

In line with the commitment to procure needed new electricity supply capacity, in 2006 the OPA negotiated new contracts for more than 1,500 megawatts of clean energy supply in areas of the province facing increasing supply constraints, while also continuing to manage supply contracts negotiated by the government before the OPA was created. In total, the OPA is managing 38 contracts covering more than 8,300 megawatts of generation – equivalent to about a quarter of Ontario's existing generating capacity.

Another major accomplishment during 2006 was the launch of Ontario's Standard Offer Program for Renewable Energy. The first such program in North America, it is intended to foster and support small (10 megawatts or less) electricity generating projects that use renewable energy sources such as wind, water, solar or biomass, by providing a standard pricing regime over a 20-year term and reducing the administrative burden for developers. The program was launched in November and has generated a substantial response from prospective project developers. The first 22 contracts were awarded in late February 2007.

Also in 2006, the OPA facilitated the introduction of forward energy auctions for the first time in Ontario. This initiative was aimed at establishing a futures market for electricity – similar to those that exist for other energy commodities, such as natural gas. One of the main purposes of a futures market is to provide greater certainty to both consumers and suppliers regarding future prices and revenue streams.

Looking ahead in 2007, the OPA will remain focused on addressing Ontario's electricity supply and demand challenges by pursuing five key strategic objectives, which can be found on page 11 of this report.

We will continue to design and implement conservation and demand management programs for residential, commercial, institutional, industrial and agricultural consumers; engage local distribution companies, municipalities, industry associations and others to develop and deliver new programs; and create a standardized process for

measuring, verifying and evaluating program results. We will also continue to foster the development of an independent conservation services industry needed to deliver sustainable conservation and demand management, and build conservation awareness across all sectors towards the longer-term goal of fostering a culture of conservation.

In this respect, the OPA has been assigned the responsibility for the funding of conservation and demand management programs for about 90 electricity distribution utilities in Ontario. We will also launch an overarching brand that will become the friendly, authoritative and trusted voice on the wise use of electricity. Both of these measures will bring greater coordination and strength to province-wide conservation efforts.

At the same time, these initiatives have resulted in a significant expansion of the OPA's responsibilities and the scope of its operations. Conservation and demand management operations alone will account for almost half of the OPA's operating budget for 2007.

In addition to completing and submitting the Integrated Power System Plan to the Ontario Energy Board and becoming involved in the regulatory process to follow, we are developing a coal emission mitigation analysis that will be submitted to the government. We will also continue to address the planning requirements of localized supply reliability concerns. These and other planning-related activities will take up less than one-quarter of the OPA's 2007 budget.

Other key initiatives in 2007 in pursuit of our strategic objectives will be to procure more conservation, demand

"We would particularly like to thank our stakeholders, including individual consumers, interest groups and industry members and associations, for their active participation in our consultation processes."

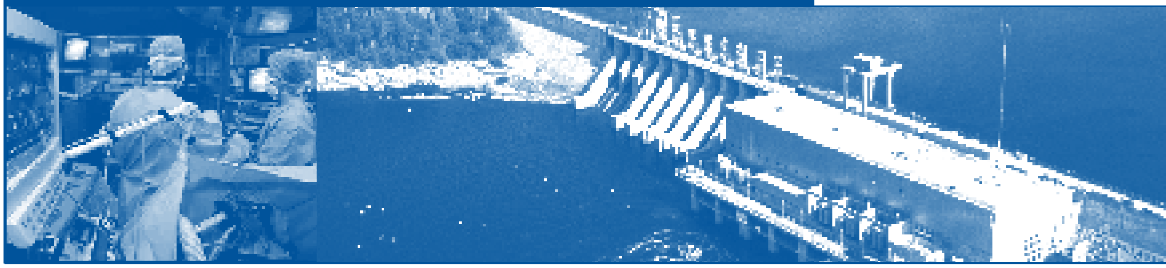
management and generation for regions with supply constraints. Going forward, the OPA will endeavour to use competitive procurement processes whenever possible to lower the costs of new generation and protect the interests of consumers. We will also continue to implement the Standard Offer Program for Renewable Energy and develop a similar program for clean energy projects. Another priority will be to continue managing a growing number of contracts, while working to strengthen relationships with generators and contract holders. This area of our mandate will account for less than 20 percent of the 2007 budget.

The OPA will also continue its sector development work in 2007 in cooperation with the Independent Electricity System Operator and other industry participants and stakeholders. Less than 10 percent of our 2007 budget will go towards this part of our mandate. The emphasis will be on developing innovative strategies to reduce reliance on OPA procurement to meet electricity demand and thereby transfer financial risks from consumers to investors. As a step in this direction, the OPA and PowerStream have agreed to undertake a proof-of-concept project to evaluate the potential of load serving entities (LSEs) to provide rate stability and transparency for consumers, and as a means of facilitating the management of electricity pricing risks now borne by customers. The project will test how an LSE might operate in Ontario's wholesale electricity market and whether customers would benefit from such a development.

In summary, 2006 was a year of solid progress in tackling the complex and challenging task of laying a secure foundation for Ontario's electricity future for the long-term benefit of all Ontarians. As Chair and Chief Executive Officer of the OPA, we would like to acknowledge and thank all of our stakeholders, as well as the OPA Board of Directors, executives and staff, for their valuable contributions to the progress we have made together. We would particularly like to thank our stakeholders, including individual consumers, interest groups and industry members and associations, for their active participation in our consultation processes. Their ideas, advice, feedback and responses have helped to improve initiatives such as the Integrated Power System Plan, procurement processes and the Standard Offer Program for Renewable Energy. We look forward to their continued contributions and support as we move ahead towards a sustainable electricity future for Ontario.

PETER L. JONES, CHAIR *JAN CARR, CHIEF EXECUTIVE OFFICER*

2006 in Review



A Commitment to Broad, Open Consultation

The OPA is committed to open and wide-ranging consultation with all those who have a stake or interest in its activities. In particular, in keeping with its core value of serving the best interests of Ontario's electricity consumers, the OPA strives to ensure that the concerns and views of electricity customers are heard and considered.

Consultations are based on the principles of relevance, inclusiveness, accessibility, transparency and fairness. The goal is to allow for the sharing and consideration of information, feedback and advice at an early stage. Consultations and communications also build a shared understanding of the issues and of the complexity, magnitude and urgency of the electricity challenges faced by the province today and in the future.

The OPA conducted extensive consultation and outreach activities throughout 2006 with more than 3,100 participants representing a wide range of organizations and interests. In addition, many communication channels were used by the OPA to build awareness of its purpose, activities and proposed plans and programs, including traditional print and electronic media, advertising, OPA publications and Web site postings, workshops, teleconferences and Web casts, speeches by OPA executives and face-to-face meetings with individual groups. In 2006 alone, almost 40 major speeches were made by OPA executives to audiences ranging from business leaders and government representatives to community, consumer and environmental organizations. The OPA also established the CEO's Conservation and Demand Management Advisory Council, which meets periodically with the CEO and members of the executive team to receive updates on the OPA's conservation activities and provide feedback. The council is comprised of representatives of the province's local distribution companies, conservation service providers, academia and environmental groups.

Additional initiatives were undertaken to ensure that customers' voices were heard. The OPA established the CEO's Customer Advisory Council, which meets quarterly with the CEO and members of the executive team to receive updates on the OPA's activities and provide valuable input. The council is comprised of representatives of the Consumers Council of Canada, the Ontario Federation of Agriculture, the Canadian Federation of Independent Business, Canadian Manufacturers and Exporters, the Association of Major Power Consumers in Ontario, the Canadian Chemical Producers' Association and the Building Owners and Managers Association. Customer, environmental and First Nations groups received funding from the OPA to enable their participation in consultations related to the Integrated Power System Plan. In addition, the OPA regularly consulted with customers and key delivery channel partners before finalizing the designs of its conservation and demand management programs.

This commitment to communication and consultation was evident in each of the OPA's major initiatives during 2006.

Conservation and Demand Management: Building a Conservation Culture

In June 2006, the Minister of Energy established the province's conservation and demand management target at 6,300 megawatts of savings in peak electricity use by 2025, with interim targets of 1,350 megawatts reduction in peak demand by 2007 and a further 1,350 megawatts by 2010.

Achieving these targets is the responsibility of all consumers in all sectors of the economy. The OPA's responsibility is to lead and coordinate this important effort.

Accordingly, the OPA is implementing a long-term conservation and demand management strategy that is focused on:

- procuring conservation and demand management resources to meet the 2007 and 2010 targets,

- enhancing capabilities across the conservation industry,
- and transforming the market to build a culture of conservation.

The OPA procures conservation and demand management resources through direct programs such as product rebates, building retrofits and appliance-recycling initiatives. Enhancing the capabilities of the conservation industry involves developing the skills and knowledge of the organizations that are designing and delivering conservation and demand management programs in the marketplace, as well as building the capability of consumers to manage their electricity use. This will be accomplished by influencing attitudes, improving knowledge, removing barriers and providing support for research and development in relation to products, technologies, program delivery options and customer needs.

"Enhancing the capabilities of the conservation industry involves developing the skills and knowledge of the organizations that are designing and delivering conservation and demand management programs in the marketplace, as well as building the capability of consumers to manage their electricity use."

The market will be transformed as older, less energy-efficient equipment and appliances are replaced and the conservation industry develops greater depth and resilience. This will be achieved through structural changes in the market, such as improvements in relevant codes and standards and the introduction of price-based incentives. In the medium to long term, there will be less need for the OPA's involvement in conservation programs because a transformed marketplace will be securing more of the available conservation resource than it does today.

Encouraging progress was made during 2006, providing a strong foundation for further success in 2007 and beyond. Ten programs were launched in 2006, and the development of another nine began for launch in 2007. New residential programs included the Every Kilowatt Counts campaign, which delivered energy-saving tips and discount coupons for energy-efficient products to all households in Ontario; the Cool Savings Rebate program for replacing older, less

efficient air conditioners; a Hot Savings Rebate program for improving the efficiency of heating equipment; and a pilot program to retire inefficient refrigerators. Following are the results that were available in March 2007. Under the Every Kilowatt Counts program, 1.6 million coupons were redeemed by up to 24 percent of Ontario households. The program will result in total electricity savings of more than two million megawatt-hours over the eight-year lifetime of the products. The Cool Savings Rebate resulted in more than 35,000 rebate submissions for all three rebate offers. The Hot Savings Rebate led to almost 6,000 submissions for all three rebate offers. Under the Secondary Refrigerator Retirement program, an estimated 10,000 fridges were retired and decommissioned, representing electricity savings of 2.72 megawatts. Follow-up research has also indicated a strong increase in consumer awareness of conservation initiatives.

An industrial demand response program launched in June 2006 facilitated the voluntary reduction of major industrial loads during peak consumption periods in response to market pricing. On average, the program led to a shift of five percent of participants' peak load to off-peak periods. On August 1, 2006, the hottest day of the year, this program saved 182 megawatts of electricity at the time of record-high system demand.

Other conservation programs either launched or actively put into development during 2006 included programs aimed at the agricultural sector, municipalities, universities, schools and hospitals, and an Aboriginal conservation initiative.

The Conservation Fund established by the OPA continued to provide financial assistance for sector-specific pilot projects. The fund helps the OPA to forge valuable relationships with key organizations that can deliver conservation programs to the marketplace. It also builds the capability of businesses, institutions and residents to integrate conservation into day-to-day activities. It is an important tool to develop knowledge about products, technologies, delivery partners and customer preferences.

The fund had a budget of $1.5 million for 2006, which will double to $3 million in 2007. More than $5 million has been leveraged from project partners and other funding partners. The projects funded to date cover industries and activities as diverse as mining, forestry, winemaking, restaurants and green grocers, high-rise condominiums, agriculture, health care and education. A list of funded projects can be found on the Conservation Bureau Web site: www.conservationbureau.on.ca.

The OPA was also active in building conservation awareness across Ontario. Specific initiatives included:

- a four-page advertising insert in community newspapers across the province, delivered to three million households,
- a documentary film on conservation that was aired on television in September,
- an intensive news media campaign, including "The Conservation Zone" columns distributed to community newspapers across the province,
- 26 Certificates of Recognition presented to individuals and organizations that have shown leadership in energy conservation and made long-term commitments to reduce energy consumption in Ontario,
- and attendance by the Chief Energy Conservation Officer at more than 100 events to spread conservation messages.

In November 2006, Ontario's Chief Energy Conservation Officer presented the Minister of Energy with his second annual report, entitled *Ontario – a new era in electricity conservation*. It provides greater details on the OPA's conservation programs and activities and the results achieved to the end of September 2006, as well as details on the conservation efforts of others in the province, and can be found on the OPA Web site.

Some changes occurred during 2006 that will make the overall conservation effort more effective in the long run. The Ontario Building Code was revised to put more emphasis on energy efficiency in construction. The Chief Energy Conservation Officer advocated aggressively for this in 2005 and early 2006. Another change was the government's decision to centralize under the OPA the coordination and funding of many of the conservation and demand management activities of Ontario's approximately 90 local electricity distribution companies. This is a significant expansion of the OPA's role and will require a substantial increase in resources.

Going forward, the OPA will take the lead in managing and coordinating conservation efforts across the province to strengthen the many different programs and messages in the market today. Another important initiative is to establish consistent standards and methods of measuring, evaluating and verifying the results of conservation programs. This will enable the OPA and other organizations that design and deliver conservation to establish baseline levels and targets for improvement, evaluate the effectiveness of education and communication initiatives and help motivate consumers to move toward a culture of conservation.

Planning for Reliable, Long-Term Electricity Supply

A cornerstone of the OPA's mandate is the responsibility to develop an Integrated Power System Plan to meet Ontario's long-term electricity needs. Such a plan has not been developed for the province for more than 15 years. The restructuring of Ontario's electricity sector in the mid to late 1990s resulted in the elimination of the integrated power system planning function that had played a central role in the development and management of Ontario's power system.

> *"Taking an integrated approach to planning means planning for both the demand and supply sides of the electricity system, considering transmission needs and taking into account the environmental, economic and social consequences of energy-related decisions."*

The OPA is charged with developing an Integrated Power System Plan that will involve a combination of conservation, supply and transmission components over a 20-year period. The plan will be reviewed and updated every three years to reflect changing conditions, new information and emerging technologies. It is subject to review and approval by the Ontario Energy Board. The regulatory review process will be transparent and will include a public hearing. The Ontario Energy Board's role is to ensure that the plan complies with government policy and is economically prudent and cost effective.

Taking an integrated approach to planning means planning for both the demand and supply sides of the electricity system, considering transmission needs and taking into account the environmental, economic and social consequences of energy-related decisions. This approach also recognizes that modern electricity networks present

complex engineering challenges and that every change to the system, such as the addition of a new generator or transmission line, has to be evaluated for its impact on the reliability and security of the system as a whole.

"Long-term, reliable electricity supply for Ontario consumers depends on a number of factors, one of which is a greatly increased role for renewable resources, such as wind, water, biomass and solar power in the supply mix."

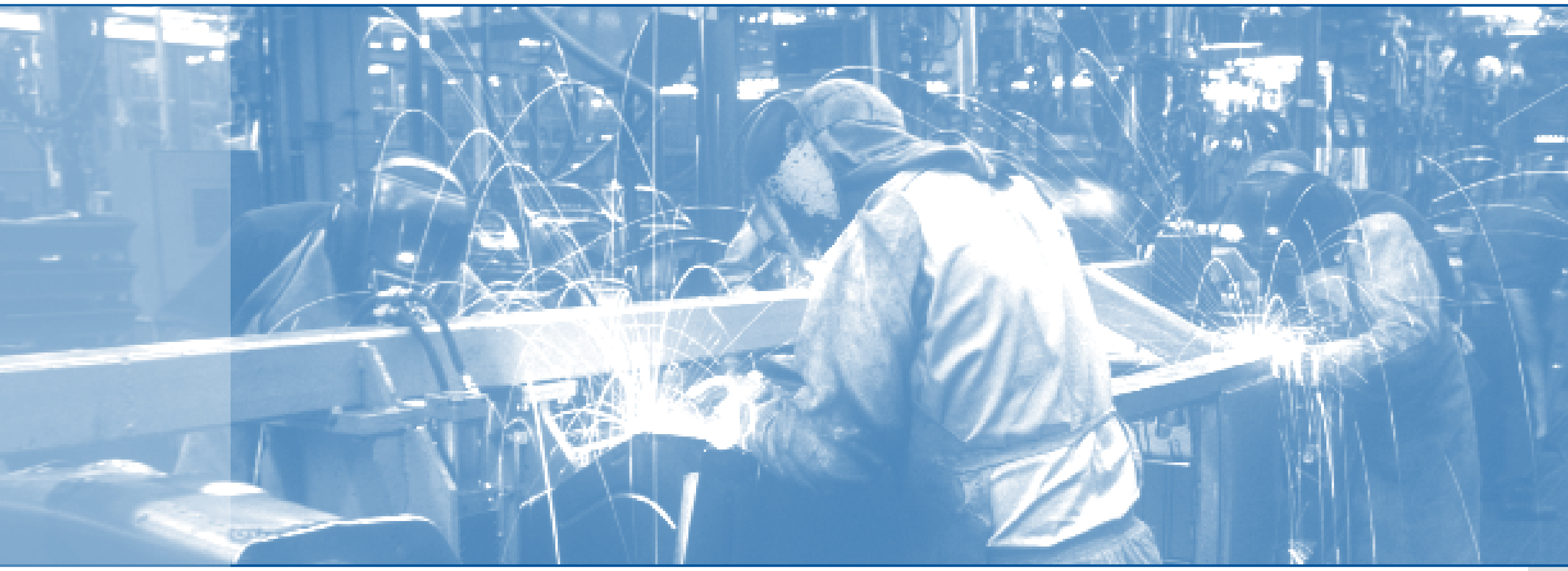
The Integrated Power System Plan builds upon work done by the OPA during 2005 that culminated in the submission of the OPA's *Supply Mix Advice Report* to the Minister of Energy in December 2005. The report presented recommendations in three areas: conservation and demand management; renewable energy sources; and conventional supply sources for the remaining demand, including nuclear power, natural gas and hydroelectricity. It recommended significant and growing roles for conservation and demand management and renewable energy sources over the next 20 years and a diversified portfolio of power sources to ensure a reliable supply of electricity.

In June 2006, following extensive public consultation, the Minister responded to the *Supply Mix Advice Report*, generally adopting its recommendations with two major exceptions. Firstly, with a government commitment to improve codes and standards and a clarification of which activities are to be considered as conservation, the conservation target was increased to 6,300 megawatts by 2025. Secondly, the Minister required that nuclear generating capacity be limited to its historic maximum of 14,000 megawatts.

Following receipt of the government's policy direction, the OPA launched an extensive public communication and stakeholder engagement process to exchange information and benefit from stakeholder input. Advertisements in newspapers across the province invited the public to get involved in the planning process and referred them to an information brochure on the OPA Web site and available in print upon request. The brochures were also distributed to every MPP constituency office in the province.

Between June and November 2006, the OPA issued seven discussion papers – on the scope and overview of the planning process, load forecasting, conservation and demand management, supply resources, transmission, environmental sustainability and the preliminary plan. An eighth discussion paper on procurement options was issued in early January 2007. The OPA also carried out numerous open briefing sessions via teleconference and Web cast, as well as workshops on each paper through the late summer, fall and early winter. Written submissions were also encouraged. These initiatives involved more than 2,200 participants and resulted in valuable input from a broad range of interested individuals and organizations – all of which is being considered in the preparation of the Integrated Power System Plan to be filed with the Ontario Energy Board in 2007.

The plan will set out the programs and facilities that will be needed for the next five years, the preliminary work



that will be needed for the subsequent five years and the direction for 10 years after that. It is expected that the Ontario Energy Board's review of the plan will take about a year, so that in 2008 Ontarians will have an approved Integrated Power System Plan that will serve as the road map to a secure and reliable supply of electricity for the foreseeable future.

Procuring New Conservation and Supply Resources Where Needed

To meet expected electricity demand over the next 20 years, Ontario needs to conserve and develop about 24,000 megawatts of new generating capacity, which is equivalent to more than 80 percent of the existing installed capacity. In pursuit of this challenging objective, the OPA is responsible for facilitating investment in new generation, conservation and demand management projects where that investment might not otherwise occur in the market.

Within this area of the OPA's mandate, the focus in 2006 was primarily on developing new generation projects for downtown Toronto and the western part of the Greater Toronto Area, as well as combined heat and power or cogeneration projects throughout Ontario in response to immediate and near-term needs.

The OPA negotiated a contract with the developer of the Portlands Energy Centre for a 538-megawatt natural gas-fired, combined-cycle generating facility in downtown Toronto. Contract negotiations were successfully completed in August 2006, and the facility is now under construction.

In November, the OPA and TransCanada Energy Limited executed a contract for the Halton Hills generating station – a 600-megawatt facility to be built along the Highway 401-407 industrial corridor in the town of Halton Hills. This contract resulted from a competitive procurement process to resolve a system reliability shortfall. The station will provide excellent value to electricity users in the area, as well as reliable long-term supply.

The OPA is now managing 38 contracts for 8,324 megawatts of new generation and eight contracts for 278.5 megawatts of demand management. These include contracts for a variety of projects procured prior to the formation of the OPA, such as the refurbishment of the Bruce Power nuclear facility near Kincardine. The contracts also cover 5,440 megawatts of natural gas generating capacity, including six combined heat and power projects with an aggregate capacity of 351 megawatts; renewable energy generating projects with a combined generating capacity of more than 1,300 megawatts; and a seventh combined heat and power project for 63 megawatts of generation fueled by by-products from industrial processes.

Following successful execution of a contract, the OPA begins the activities required to ensure that the facility is completed and brought online. These include enforcing timelines for deliverables from the project operators, tracking project milestones, performing due-diligence audits and ensuring compliance with contract terms.

"The OPA is now managing 38 contracts for 8,324 megawatts of new generation and eight contracts for 278.5 megawatts of demand management."

Supporting Small-Scale Renewable Energy Generation

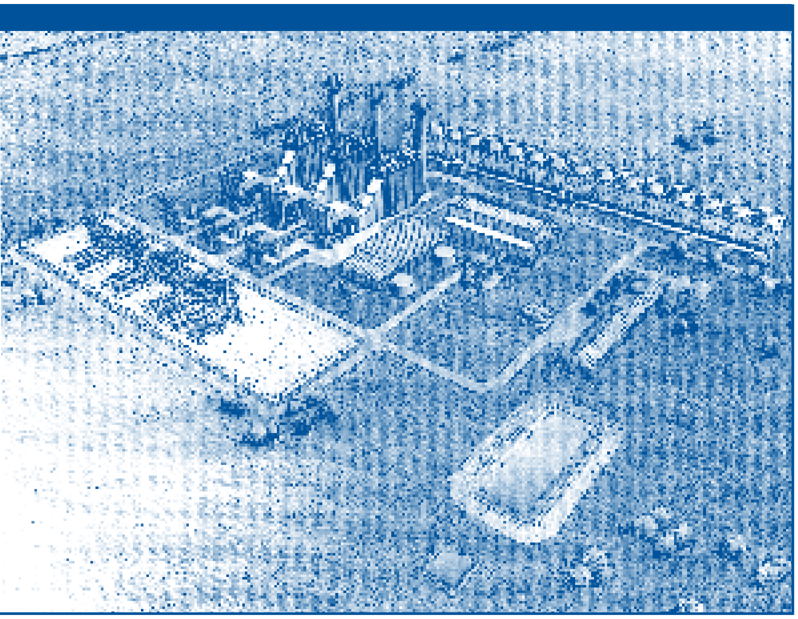
Long-term, reliable electricity supply for Ontario consumers depends on a number of factors, one of which is a greatly increased role for renewable resources such as wind, water, biomass and solar power in the supply mix. Renewable energy facilities connected to the electricity distribution system can not only improve the reliability of supply but also contribute to cleaner air and reduced emissions of greenhouse gases that contribute to climate change.

The government has set a target of having 2,700 megawatts of electricity generated by renewable sources by 2010. Procurement processes implemented by the OPA and by the government before the creation of the OPA have led to a number of large renewable energy project proposals that, if completed, will result in substantial progress toward the target. It is clear, however, that smaller renewable energy projects can also make a valuable contribution and should be encouraged and supported wherever it is practical and economic to do so.

Many potential smaller projects were prevented from proceeding by the complexity, costs and administrative burden of developing project proposals and meeting the requirements of the competitive procurement processes and contracts that were designed for large projects. To remove these barriers, the Minister of Energy requested that the OPA and the Ontario Energy Board work together to design a standard offer program for small clean and renewable energy generation projects that would provide a standard pricing regime and simplified eligibility, contracting and other rules.

Following extensive research and consultation with stakeholders, the OPA and the Ontario Energy Board submitted a joint report to the Minister of Energy on March 17, 2006, with recommendations for a renewable energy standard offer program. On March 21, 2006, the OPA received the Minister's directive to implement the renewable energy standard offer program. A further extensive program of stakeholder consultation was undertaken before program rules and contract terms were determined.

The Standard Offer Program for Renewable Energy was launched on November 22, 2006, and is the first program of its kind in North America. Introduction of the program was accompanied by a wide-ranging information campaign involving the media, print and electronic communications, Web casts, teleconferences and a comprehensive Web site that includes information and advice for prospective generators and investors, as well as an online application. The first 22 contracts, representing more than 140 megawatts of generating capacity and some $336 million in investment, were awarded in late February 2007.



It is expected that the program will lead to a significant aggregate contribution to Ontario's electricity supply security by small renewable energy projects.

The OPA and Ontario Energy Board were also asked to consider a clean energy standard offer program. The OPA is currently considering the pricing, eligibility and contract terms for this program and expects to deliver its recommendations to the Minister of Energy in the spring of 2007.

Creating a More Competitive Market

During 2006, the OPA also worked on measures to progress toward a market-driven electricity system. The goal is to reduce the need for the OPA to contract for new supply, thereby transferring financial risk from consumers to investors. These measures included the introduction, on a small-scale, phased-pilot basis, of forward energy auctions, the first to be offered in Ontario. Forward contracts allow industrial and other large consumers in the wholesale electricity market to lock in their long-term costs, fostering market liquidity and forward price discovery.

The OPA, with assistance from NGX (Natural Gas Exchange Inc.), facilitated two forward energy auctions during the year – in February and April – each involving electricity that was already being produced and sold into spot markets. The auctions were designed as wholesale market events, and eligible parties were those normally registered as participants in the markets administered by the Independent Electricity System Operator. As the OPA sees the benefit of market-based investment, in December a third auction was conducted by NGX with the OPA acting only as an observer.

In total, the three auctions involved more than $1 billion in electricity to be delivered over the next four years. As a result, both buyers and sellers have obtained pricing certainty for electricity that otherwise would have been bought and sold at continually varying prices. This initiative represented a significant step toward establishing an ongoing electricity futures market in Ontario.

In 2006, the OPA also began work with industry participants on a pilot project to test the concept of load serving entities, which are independent organizations that act as bulk purchasers of electricity and provide the benefit of locked-in prices to smaller customers. Ideally, Ontario will move over time to a system where competitive wholesale and retail markets will provide long-term price security and minimize risks for consumers. This will also provide residential, commercial and industrial customers with forward pricing information to facilitate planning and allow for greater benefits from conservation and demand management programs.

Also in 2006, the OPA established the Technology Development Fund to support the development and commercialization of technologies or applications that have the potential to improve electricity supply, conservation or demand management. Thirteen projects received a total of $736,572 from the fund in 2006. This funding leveraged over $8 million in partner contributions.

Looking Ahead – Strategies for 2007 and Beyond

The OPA's 2007 Business Plan is focused on addressing Ontario's electricity supply and demand management challenges by pursuing five key strategic objectives. The strategic objectives and the measures intended to achieve them are as follows:

Objective 1. Execute on prioritized conservation initiatives, build conservation and demand management capabilities across all sectors, and advance a sustained conservation culture.

To achieve this objective, the OPA will:

- create and deliver conservation and demand management initiatives using the best available market knowledge and a multitude of delivery channels;
- develop the needed infrastructure and market mechanisms through a broad range of industry and community organizations;

- advocate policy and regulatory changes to promote energy efficiency;
- establish a protocol for electricity program evaluation, measurement and verification;
- and champion the building of a conservation culture through targeted awareness, education and social marketing campaigns.

"In each of its four key areas of activity significant new initiatives were undertaken and completed, and a solid foundation was established for further progress in 2007 and beyond."

Objective 2. Develop and deliver a comprehensive Integrated Power System Plan that addresses conservation, generation and transmission.

To achieve this objective, the OPA will:

- complete the Integrated Power System Plan, submit it to the Ontario Energy Board for approval and provide ongoing support for its implementation;
- identify solutions to address urgent reliability concerns and projects;
- and work in close coordination with the Ontario and municipal governments, as well as with organizations within the electricity sector, to advance public policy and sector policy related to power system planning and development.

Objective 3. Procure needed generation capacity in a timely way that also supports long-term sector development.

To achieve this objective, the OPA will:

- design procurements and procure solutions to address immediate reliability concern areas and allow sustainable sector development;
- strengthen relationships with generators and others under contract through operational effectiveness;
- financially settle contracts with generators and others while building and maintaining strong and cooperative working relationships with all parties;
- and reduce barriers to participation in the electricity market by small renewable generators and small clean energy generators.

Objective 4. Define sector development goals, facilitate the transfer of risk associated with generation investment from electricity customers to investors, and promote the development of new renewable, conservation and supply technologies.

To achieve this objective, the OPA will:

- identify clear steps in the sector development process and build needed partnerships and initiatives to progress toward competitive market development;
- initiate pilot testing of the load serving entities concept for review and potential development;
- provide a clearinghouse of renewable energy information;
- and support the commercialization of new technologies through the Technology Development Fund.

Objective 5. Continue building organizational capacity to meet the preceding four objectives.

The OPA is a relatively new organization, and its mandate was significantly expanded in 2006 – particularly with regard to its role in coordinating the delivery of conservation and demand management programs. Additional resources are required to meet the expanded mandate, including an approximate doubling of the total budget.

Fulfilling the Mandate

In 2006, the first year of full operation, the OPA made solid progress toward fulfilling its mandate of ensuring an adequate, long-term supply of electricity for Ontario while serving and protecting the interests of consumers and ratepayers. In each of its four key areas of activity – conservation, generation development, power system planning and electricity sector development – significant new initiatives were undertaken and completed, and a solid foundation was established for further progress in 2007 and beyond.

At the same time, it was also a year in which the volume and scope of OPA activities and responsibilities were significantly expanded from the levels envisaged at the time of its inception, most notably in the critically important area of creating a conservation culture in the province.

Going forward, the OPA will continue to meet both existing and new challenges in striving to ensure a secure electricity future for the people of Ontario.

Management's Discussion and Analysis

This discussion and analysis should be read in conjunction with the audited financial statements and accompanying notes for the year ended December 31, 2006.

2006 Financial Highlights

- Income before other income and expense amounted $1.8 million. After allowing for committed awards as described in note 12 to the financial statements ($2.5 million), the expenses over revenues amounted to $0.6 million.
- Total expenses inclusive of funds committed in 2006, amounted to $32.5 million.
- Total revenue during 2006 was $31.8 million.

Comparative Analysis to 2005

Readers are cautioned that direct comparison of 2006 financial results with the 2005 results is of limited value as the OPA commenced operations in early 2005 and, with the exception of the Chief Executive Officer, employment of staff did not begin until April 2005, and until July 2005, the OPA's five operating divisions did not have even core staff.

Funding of Operations

The legislation that created the OPA allows it to recover:

(1) its operating costs, including any costs associated with financing. For 2006, operating costs were $30.9 million, as reflected under fees in the statement of operations; and

(2) payments and recoveries related to contracts entered into for new electricity supply, conservation and demand management amounted to $313.5 million. This is reflected under the global adjustment section in the statement of operations.

The OPA's operating costs are subject to approval by the Ontario Energy Board (OEB). The recovery of contract costs and payments are recovered through a per kilowatt-hour (kWh) charge in the month that they occur. The charge is established by the Independent Electricity System Operator (IESO) as part of its market payments settlement process. Both the OEB-approved costs and the contract costs and payments are recovered by the IESO through its market operations and remitted by the IESO to the OPA.

Financing

The OPA's financing requirements are mainly short term and are primarily used to fund the Regulated Price Plan, Retailer Variance and Global Adjustment account balances. The aggregate of the account balance fluctuates monthly and can move to either a credit or debit position. The OPA currently has a $975 million line of credit with the Province of Ontario, which was renewed for a three-year period from January 1, 2007 to December 31, 2010. As at December, 31, 2006, the amount drawn under this line of credit was approximately $140 million.

Regulated Price Plan (RPP)/Provincial Rebate Program

The OEB is responsible for setting prices in a Regulated Price Plan (RPP) for residential and other designated consumers that provides stable and predictable electricity pricing and ensures that the price consumers pay for electricity reflects projected payments to generators over the smoothing period.

The OPA is responsible for administering a RPP account (the Account) which captures any difference between the revenue collected from RPP customers for all their electricity use and the cost of purchasing that power from wholesale sources. The OPA reports the Account balance monthly to the OEB. The OEB will normally adjust the RPP prices every six months but may change them more frequently based on the actual or anticipated Account balance being excessive. Price changes are based on updated OEB forecasts and the Account balance.

The RPP prices are established inclusive of any anticipated rebate from Ontario Power Generation Inc. (OPG) for which RPP customers would be eligible. Therefore, the portion of any such rebate from OPG that relates to RPP customers is paid directly to the OPA and credited to the Account. The OPG rebate is any difference between the revenue limit for specific OPG generating facilities and the revenue OPG actually received in the IESO wholesale spot market for that generation. It is also referred to as the Ontario non-prescribed asset (ONPA) rebate. Effective April 2006, rebates are paid by OPG quarterly but previously were paid annually.

During the fiscal year 2006, the OPA received from OPG a rebate of $354 million, which was credited to the Account. Generally mild weather conditions kept electricity prices below forecast levels, resulting in net payments into the Account by RPP customers of $313 million. The year end balance in the Account stood at $77 million due from RPP customers.

Global Adjustment and Settlement Account

The Global Adjustment and Settlement Account is administered by the IESO and records the monthly adjustment or movement between the market price (Hourly Ontario Energy Price or HOEP) and set prices paid to certain owners of generation. These owners are:

- OPG for its "designated assets" for which the government has prescribed the price of power sold. The designated assets are certain major hydroelectric plants and all nuclear plants.
- Non-utility generators (NUGs) are independently owned generators that were developed under contract to the former Ontario Hydro. On the dissolution of Ontario Hydro, the Ontario Electricity Financial Corporation assumed counterpart responsibility for these contracts.
- Suppliers of generation or load reduction for OPA supply, conservation and demand management contracts. These contracts are managed by the OPA and were established through public procurement processes. They are referred to by the IESO as "RFP contracts." Under these contracts, the OPA provides generators with guaranteed revenue.

The IESO forwards a monthly invoice to the OPA that reflects the Global Adjustment movements that occurred for the previous month. The net balance on this invoice can be either positive or negative. On December 31, 2006, this resulted in approximately $94 million included in accounts receivable on the statement of financial position.

OPA-Administered Contracts

In 2006, the OPA administered 18 contracts that were actively delivering generation and demand response resources to the electricity system. These contracts covered:

- Nuclear, clean energy supply and renewable energy source contracts at a cost of $310.5 million.
- Demand response (DR) contracts at a cost of $3.0 million.

Conservation and Technology Funds

Payments made from the Conservation Funds and Technology Development Fund are recorded as expenses in the period in which the recipients are determined to have met contracted performance. The OPA internally restricts the funds intended to be awarded and reduces the restricted amounts accordingly as they are expensed. The notes include information indicating to what degree the fund amounts have been awarded and expensed.

Ministry of Energy Account

Section 25.18 of the *Electricity Restructuring Act 2004*, requires that the OPA will pay to the Ministry of Energy (MOE) all costs the MOE incurs associated with the procurement of electricity. In 2005, the MOE incurred $6.8 million of costs associated with electricity procurement, which the OPA recovered as part of its fees approved by the OEB. The recovery of these costs through fees is shown as a recovery in the "other (income) and expense" section of the statement of operations for fiscal 2006 as it was a recovery of a 2005 expense for which recovery was uncertain at the time of the preparation of the 2005 financial statements.

For 2006, the OEB approved the OPA's request to establish a deferral account to track MOE costs and the balance is shown under "other current assets". In 2006, the MOE advised the OPA that it had incurred costs of $1 million associated with the procurement of electricity.

Bid Deposits

In 2005, the OPA received bid deposits from numerous proponents tendering in various procurement processes for new electricity supply, conservation or demand management. Many of these deposits had maturity dates of one or two years. Deposits with a maturity date of one year or less are recorded under current liabilities, while those with a maturity date greater than one year are recorded under long-term liabilities.

In 2006, all deposits had a maturity date of one year or less and were all classified as current liabilities.

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AUDITORS' REPORT

To the Board of Directors

We have audited the statement of financial position of the Ontario Power Authority as at December 31, 2006, and the statements of operations, cash flows and changes in net assets for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Toronto, Canada

February 12, 2007

Statement of Financial Position

Year ended December 31, 2006, with comparative figures for 2005

	2006	2005
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 40,289,599	$ 8,911,099
Accounts receivable, net	102,725,702	230,401
Other current assets (note 3)	2,260,090	1,871,974
Total Current Assets	**$ 145,275,391**	**$ 11,013,474**
Regulated Price Plan Variance (note 4)	$ 77,341,339	$ 744,280,862
Capital Assets (note 5)	3,515,970	3,394,765
TOTAL ASSETS	**$ 226,132,700**	**$ 758,689,101**
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued liabilities	$ 91,974,748	$ 71,372,501
Contract deposits (note 18)	1,306,800	84,889
Deferred rent inducement, net (note 8)	1,195,080	1,331,013
Due to Ministry of Energy (note 14)	–	6,816,692
Operating loan (note 11)	33,788,770	7,008,002
Revolving loan - Regulated Price Plan (note 11)	106,533,010	603,785,956
Retailer Settlement Balance (note 6 and 11)	(11,483,164)	72,827,345
Total Current Liabilities	**$ 223,315,244**	**$ 763,226,398**
Long Term Liabilities (note 18)	$ –	$ 1,254,000
NET ASSETS		
Internally restricted for Conservation and Technology Funds (note 12)	$ 2,468,675	$ 1,021,250
Investment in capital assets	3,515,970	3,394,765
Unrestricted / accumulated operating surplus	(3,167,189)	(10,207,312)
Commitments (note 8)	**$** 2,817,456	$ (5,791,297)
TOTAL LIABILITIES and NET ASSETS	**$ 226,132,700**	**$ 758,689,101**

See accompanying notes to financial statements.

On behalf of the Board:

Chair

CEO

Statement of Operations

Year ended December 31, 2006, with comparative figures for 2005

	2006	2005
REVENUES		
Fees	$ 30,944,308	$ 15,000,000
Registration	395,889	–
Interest income	475,627	125,014
	$ 31,815,824	$ 15,125,014
EXPENSES		
Staff and board costs	$ 13,677,813	$ 5,929,823
Professional and consulting fees	11,249,413	6,274,558
Conservation/Technology Development Fund expense (note 12)	1,052,575	78,750
General operating costs (note 7)	3,341,331	1,699,081
Amortization of capital assets	661,736	117,407
	$ 29,982,868	$ 14,099,619
Income before other interest, other income and expense and global adjustment:	**$ 1,832,956**	**$ 1,025,395**
OTHER (INCOME) AND EXPENSE		
Loss on disposal of capital assets	$ 40,895	$ –
Ministry of Energy - RFP costs / (recoveries) (note 14)	(6,816,692)	6,816,692
Interest earned on RPP balance	(16,771,487)	(5,969,074)
Interest paid on RPP loan	16,071,356	5,671,208
Interest paid on retailers loan	700,131	297,866
Total Other (Income) and Expense	**$ (6,775,797)**	**$ 6,816,692**
GLOBAL ADJUSTMENTS AND SETTLEMENTS (note 16)		
Non-utility generation contracts	$ 400,150,050	$ 136,485,048
Designated nuclear generation	150,059,205	(803,741,050)
Designated hydroelectric generation	(225,963,441)	(487,994,199)
Renewable electricity supply	(10,739,939)	–
Global adjustment / provincial benefit	(313,505,875)	1,155,250,201
Total Global Adjustments and Settlements	**$ –**	**$ –**
Excess of revenues over expenses (expenses over revenue)	**$ 8,608,753**	**$ (5,791,297)**

See accompanying notes to financial statements.

Statement of Cash Flows

Year ended December 31, 2006, with comparative figures for 2005

	2006	2005
Cash Flows from Operating Activities:		
Excess of revenues over expenses (expenses over revenues)	$ 8,608,753	$ (5,791,297)
Adjustments for:		
Loss on disposal of capital assets	40,895	–
Amortization of capital assets	661,736	117,407
Change in non-cash operating items (note 15)	(55,668,424)	78,948,030
	$ (46,357,040)	$ 73,274,140
Cash Flows from Financing and Investing Activities:		
(Recoveries)/advances from the Ontario Financing Authority	$ (497,252,946)	$ 603,785,956
(Recoveries)/advances from the Ministry of Energy	(6,816,692)	6,816,692
(Increase)/decrease in the RPP Variance Account	666,939,523	(744,280,862)
Increase/(decrease) in the Retailers Settlement Balance	(84,310,509)	72,827,345
Purchase of capital assets (gross)	(823,836)	(3,512,172)
	$ 77,735,540	$ (64,363,041)
Net Increase in cash and cash equivalents	$ 31,378,500	$ 8,911,099
Cash and cash equivalents, beginning of year	8,911,099	–
Cash and cash equivalents, end of year	**$ 40,289,599**	**$ 8,911,099**

See accompanying notes to financial statements.

Statement of Changes in Net Assets

Year ended December 31, 2006, with comparative figures for 2005

	Net Assets Invested in Capital Assets	Internally Restricted: 2005 Conservation Fund	2006 Conservation Fund	2006 Technology Fund	Unrestricted	Accumulated Net Assets
Balance, beginning of the year	$ 3,394,765	$ 1,021,250	$ –	$ –	$ (10,207,312)	$ (5,791,297)
Excess of revenue over expenses	(661,736)	–	–	–	9,270,489	8,608,753
Establishment of 2006 Conservation Fund	–	–	1,500,000	–	(1,500,000)	–
Establishment of 2006 Technology Fund	–	–	–	1,000,000	(1,000,000)	–
2005 Conservation Fund expenditures	–	(751,347)	–	–	751,347	–
2006 Conservation Fund expenditures	–	–	(300,228)	–	300,228	–
2006 Technology Fund expenditures	–	–	–	(1,000)	1,000	–
Investment in capital assets (net)	782,941	–	–	–	(782,941)	–
Balance, end of year	**$ 3,515,970**	**$ 269,903**	**$ 1,199,772**	**$ 999,000**	**$ (3,167,189)**	**$ 2,817,456**

See accompanying notes to financial statements.

Notes to Financial Statements

Year ended December 31, 2006, with comparative figures for 2005

1 Nature of Operations

The Ontario Power Authority (the "OPA" or the "Authority") was established as a non-share corporation, on December 9, 2004, by the *Electricity Restructuring Act, 2004* (the "Act"). In accordance with the Act, the OPA's main objectives are:

1. to forecast electricity demand and the adequacy and reliability of electricity resources for Ontario for the medium and long term;
2. to conduct independent planning for electricity generation, demand management, conservation and transmission, and develop integrated power system plans for Ontario;
3. to engage in activities in support of the goal of ensuring adequate, reliable and secure electricity supply and resources in Ontario;
4. to engage in activities to facilitate the diversification of sources of electricity supply by promoting the use of cleaner energy sources and technologies, including alternative energy sources and renewable energy sources;
5. to establish system-wide goals for the amount of electricity to be produced from alternative energy sources and renewable energy sources;
6. to engage in activities that facilitate load management;
7. to engage in activities that promote electricity conservation and the efficient use of electricity;
8. to assist the Ontario Energy Board by facilitating stability in rates for certain types of customers;
9. to collect and provide to the public and the Ontario Energy Board information relating to medium- and long-term electricity needs of Ontario and the adequacy and reliability of the integrated power system to meet those needs.

The Authority's ability to continue as a going concern is dependent upon its ability to obtain financing to support operations. The OPA's creditworthiness is provided by:

1. Legislation, which provides the OPA with a strong ability to meet its obligations.
2. The OPA's minimal counterparty risk, given that its principal counterparty is the IESO, a creation of the province and a strong counterparty.

Definitions:

OPA	Ontario Power Authority	**RFP**	Request for proposal
RPP	Regulated Price Plan	**OEB**	Ontario Energy Board
IESO	Independent Electricity System Operator	**OPG**	Ontario Power Generation
NUG	Non utility generation	**LDC**	Local distribution company
OFA	Ontario Financing Authority	**HOEP**	Hourly Ontario Energy Price

2 Summary of Significant Accounting Policies

Basis of accounting:

The financial statements are prepared in accordance with Canadian generally accepted accounting principles.

Revenue recognition:

Fees earned by the OPA are based upon OEB-approved rates for electrical energy withdrawn from the IESO-controlled grid by electricity consumers of Ontario. Such revenue is recognized in the period in which it is collected.

Cash and cash equivalents:

Cash and cash equivalents is comprised of bank deposit balances, term deposits and other short-term investments with original maturity dates of up to 120 days.

Capital assets:

Capital assets are recorded at cost. The capital cost of property and equipment is amortized on a straight-line basis over their estimated service lives, as follows:

Class of Asset	Estimated Service Life
Furniture and equipment	10 years
Leasehold improvements	length of lease
Computer hardware and software	2.5 years
Audio-visual equipment	10 years
Telephone system	5 years

Measurement uncertainty:

Uncertainty in determining the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when it is reasonably possible that there could be a material variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used. Measurements of uncertainty in these financial statements exist in the valuation of the power purchase contracts and the estimated defeasance date for the OPA's obligations. Estimates are based on the best information available at the time of preparation of the financial statements and are updated annually to reflect new information as it becomes available.

3 Other Current Assets

	2006	2005
Global adjustment recoverable	$ 1,086,978	$ 1,726,149
Government procurement costs	1,034,970	–
GST recoverable	–	131,187
Prepaids	138,142	14,638
Total	$ 2,260,090	$ 1,871,974

The OPA applied for and received approval to establish a deferral account for the Government of Ontario procurement costs in its 2007 Revenue Requirement Submission to the OEB. The OPA will propose a settlement of these costs with its 2008 Revenue Requirement Submission. The costs paid in 2006 will be received with the settlement of the 2008 Revenue Requirement Submission. Refer to note 14 for information on the legislative authority related to the government procurement costs.

4 The Regulated Price Plan (RPP) Variance Account

The RPP has been designed to provide stable electricity pricing so that consumers will not experience volatility from electricity spot market prices.

While prices for RPP consumers are set every six months by the OEB based upon a forecast of the cost of power over the next year, it is likely that there will be a difference between the actual and forecast cost of supplying electricity to all RPP consumers. The OPA tracks this variance in the RPP variance account.

To assure smooth prices are provided to residential, small commercial and other designated customers, while recovering the full cost of electricity, this difference will be blended into future prices.

The following outlines the composition of the variance account:

	2006	2005
Ontario Power Generation rebate contribution	$ 7,215,194	$ 361,224,170
Total RPP variance before interest	47,385,585	377,087,619
Interest earned	22,740,560	5,969,073
Total	$ 77,341,339	$ 744,280,862

In April 2006, the OPA received a payment of the OPG rebate for RPP customers of $300,332,540 to apply against the outstanding RPP variance. The rebate is now calculated on a lagging three-month basis and paid quarterly by OPG. In 2006, the total OPG rebate related to RPP customers was $354,008,976.

5 Capital Assets

	Cost	Accumulated Amortization	Net Book Value 2006	Net Book Value 2005
Furniture and equipment	$ 1,414,585	$ 140,464	$ 1,274,121	$ 1,163,254
Leasehold improvements	1,574,770	181,359	1,393,411	1,429,723
Computer hardware and software	1,022,608	412,036	610,572	624,248
Audio-visual equipment	142,215	17,339	124,876	132,407
Telephone system	125,545	12,555	112,990	45,133
	$ 4,279,723	$ 763,753	$ 3,515,970	$ 3,394,765

6 Retailer Settlement Balance

Legislation provisions ensure that electricity retailers will be made whole by the OPA for contracts with low-volume and designated consumers that were entered into before prices were frozen by legislation effective November 11, 2002. These provisions are achieved by the OPA and retailers settling any differences between the HOEP and the contract price for each contract. When HOEP is below the contract price, the OPA will make payments to the retailers. When HOEP is above the contract price, then the OPA receives a payment. Many of the retailer contracts that were in effect on November 11, 2002 had terms of three to five years. As a result, the number of contracts and associated volumes will decline as these contracts expire. It is expected that by November 2007, all of these contracts will have expired.

7 General Operating Costs

	2006	2005
General program costs	$ 1,200,807	$ 536,662
Information technology	159,152	101,175
Premises	1,274,575	551,474
Office and administration	706,797	494,483
Bank interest	–	15,287
Total	$ 3,341,331	$ 1,699,081

8 Commitments

The OPA entered into two long-term lease commitments for office space during the fiscal year 2006, which included various lease inducements. Deferred rent inducement represents the benefit of operating lease inducements that are being amortized on a straight-line basis over 10 years, the term of the lease. In addition to a rent-free period until May 2006 (valued at $212,589) for the initial lease, the OPA received an additional rent-free period on a portion of the new space until May 15, 2007 (valued at $28,728). The OPA initially obtained an allowance for leasehold improvements of $1,359,332. As at December 31, 2006, the deferred rent inducement, net of amortization, was $1,195,080.

In accordance with guidance provided by the Canadian Institute of Chartered Accountants, the OPA reports an average rental cost for premises over the term of the lease agreement and amortizes the benefit of the lease inducements over the same period. As at December 31, 2006, the accrued rent liability was $240,046.

The minimum annual payments under the operating lease are approximately as follows:

Commitments	
2007	$ 804,000
2008	903,000
2009	903,000
2010	920,000
2011	983,000
2012 and thereafter	3,729,000
Total	$ 8,242,000

The lease commitments entered into in 2006 are set to expire consistent with the initial lease terms.
All lease commitments are set to terminate on October 14, 2015.

9 Related Party Transactions

The OPA considers the Government of the Province of Ontario, its Agencies and its Crown Corporations to be related parties. In the normal course of operations, the OPA has transactions with the following related parties:

a) Hydro One
b) Ontario Power Generation
c) Independent Electricity System Operator
d) Ontario Financing Authority
e) Ministry of Energy

	2006		2005	
	Revenues	**Expenses**	**Revenues**	**Expenses**
Hydro One	$ –	$ –	$ –	$ –
Ontario Power Generation	–	30,795	–	–
Independent Electricity System Operator (fees, IPSP planning assistance)	37,761,000	439,000	15,000,000	–
Ontario Financing Authority (interest)	–	16,771,487	–	5,969,074
Ministry of Energy (RFP costs)	–	1,034,970	–	6,816,692
	$ 37,761,000	$ 18,276,252	$ 15,000,000	$ 12,785,766

The 2006 expense related to the Ministry of Energy RFP costs is classified in the balance sheet consistent with the OEB decision to allow the cost to be carried in a deferral account and settled at the same time as the retail contract settlement deferral accounts in the 2008 Revenue Requirement Submission to the OEB.

10 Pension Plan

The OPA makes contributions to Ontario Pension Board, a multi-employer plan, on behalf of all staff. The plan is a contributory defined benefit plan, which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay.

Contribution rates by employers are made at a rate of approximately 8 percent of earnings. As a result, the OPA made contributions totalling $666,839 during the year.

11 Revolving Line of Credit, Outstanding Promissory Notes

The OPA has available a revolving operating facility in the amount of $975 million, provided to it by the Ontario Financing Authority.

	2006	**2005**
Operating loan	$ 33,788,770	$ 7,008,002
Revolving loan - Regulated Price Plan	106,533,010	603,785,956
Retailer settlement balance	(11,483,164)	72,827,345
Total outstanding	$ 140,321,780	$ 683,621,303
Average interest rate	4.01%	3.37%

All outstanding promissory notes are cleared monthly and replaced with new promissory notes.

12 Internally Restricted Funds

The Ontario Power Authority established the Conservation Fund to assist electricity conservation projects. To date, three funds have been set up as depicted in the table below. The 2005 Conservation Fund is fully awarded and payments will be made as the projects meet their milestones. As at December 31, 2006, $1,331,770 in grants has been awarded for the 2006 Conservation Fund, and $736,572 has been awarded for the Technology Development Fund.

Internally Restricted Funds				Balance Remaining	
	Restricted Fund	Expensed 2006	Expensed 2005	December 31 2006	December 31 2005
2005 Conservation Fund	$ 1,100,000	$ 751,347	$ 78,750	$ 269,903	$ 1,021,250
2006 Conservation Fund	1,500,000	300,228	–	1,199,772	–
2006 Technology Development Fund	1,000,000	1,000	–	999,000	–
	$ 3,600,000	$ 1,052,575	$ 78,750	$ 2,468,675	$ 1,021,250

13 Fair Value of Financial Assets and Financial Liabilities

The carrying amounts for cash, accounts receivable, accounts payable and accrued liabilities approximate their fair values because of the short-term maturity of these instruments.

The fair values of the Regulated Price Plan variance, operating loan, revolving loan - Regulated Price Plan and retailer settlement balance are not provided because it would not provide additional useful information as they would be offset and/or would not be practical to determine.

14 RFP Costs Transferred to the OPA

Under section 25.18 of the *Electricity Act, 1998*, the OPA is required to reimburse the Crown, or, if so directed by the Minister of Finance, an agency of the Crown for certain costs incurred by the Crown or an agency of the Crown after January 20, 2004, and before the Ontario Energy Board's first approval of the OPA's procurement process under subsection 25.31(4) of the *Electricity Act, 1998*. These costs include costs incurred related to the OPA, a contract to procure supply capacity or conservation and demand management, an initiative that was commenced by the Crown that the OPA has been required to assume under a Minister's directive or a matter within the objects of the OPA.

During 2006, the OPA received three invoices from the Ministry of Energy totalling $1,034,970. For additional information, please refer to note 3.

15 Change in Non-Cash Operating Items

	2006	2005
(Increase)/decrease in accounts receivable	$ (102,495,301)	$ (230,401)
Increase in other current assets	(388,116)	(1,871,974)
Increase in accounts payable	20,602,247	71,372,501
Increase/(decrease) in deferred rent inducement	(135,933)	1,331,013
Increase in operating loan	26,780,768	7,008,002
Increase/(decrease) in contract deposits	(32,089)	1,338,889
	$ (55,668,424)	$ 78,948,030

16 Global Adjustments and Settlements

Global adjustments and settlements are charges that flow through the OPA from the IESO monthly. These charges are set up so there will be no financial impact on the OPA.

NUG Contract Adjustment Balancing Amount:

Charge Type 193 – Ontario Electricity Financial Corporation's claim for the difference between market payments for NUGs and NUG contract costs.

Regulated Nuclear Generation Balancing Amount:

Charge Type 194 – the difference between the market payments for OPG's nuclear generation and the payments at the prescribed nuclear rate.

Regulated Hydroelectric Generation Balancing Amount:

Charge Type 195 – the difference between the market payments for OPG's base-load hydroelectric generation (up to 1,900 MW) and the payments at the prescribed hydroelectric rate.

The other charge type related to the Global Adjustment is Charge Type 1450, OPA Contract Adjustment Balancing Amount.

This is the OPA's claim for the difference between market payments for OPA-contracted generation and the OPA's contract costs.

Global Adjustment Balancing Amount:

Charge Type 196 – the total of all components of the Global Adjustment (Charge Types 193, 194, 195, 1450).

Renewable Electricity Supply:

In October 2006, the OPA became a Metered Market Participant (MMP) for the supply of renewable energy to Ontario. Renewable energy is defined by legislation as an energy source that is renewed by natural processes and includes wind, water, biomass, solar energy, geothermal or tidal force. Prior to the OPA assuming responsibility for the settlement of renewable energy generation, these contracts were managed by the Ontario Electricity Financial Corporation.

17 Comparative Figures

Certain comparative figures have been reclassified to conform with the basis of presentation adopted in the current year.

18 Contract Deposits

Deposit amounts received from Renewable Energy Supply (RES) contractors. The deposit amounts are larger during the construction phase and are reduced once the project commences commercial operations. The deposits are classified as current liabilities as the projects are expected to enter commercial operations in 2007.

Corporate Information

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Jan Carr, Chief Executive Officer

Paul Bradley, Vice President, Electricity Resources

Peter Love, Chief Energy Conservation Officer

Mary Ellen Richardson, Vice President, Conservation Programs and External Relations

Amir Shalaby, Vice President, Power System Planning

Paul Shervill, Vice President, Program Operations and Sector Development

John Steen, Treasurer
Director, Finance and Business Services

John Zych, Corporate Secretary

Some photos courtesy of Ontario Power Generation

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