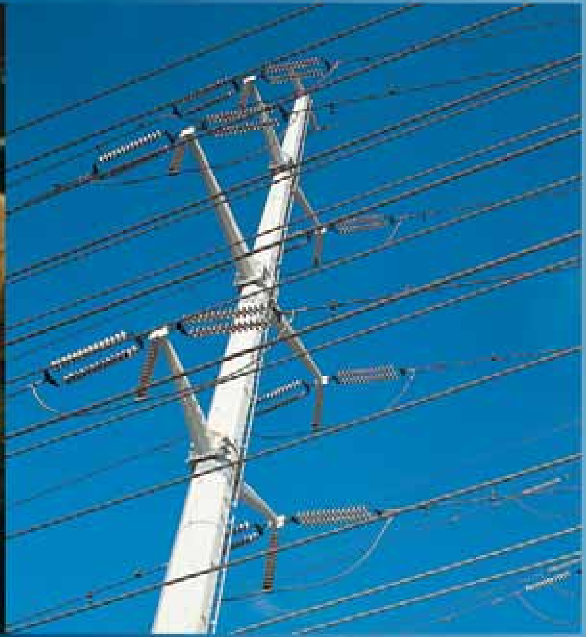
Power to Ontario.
On Demand.

Corporate Performance

to the end of December 2005



2005 Corporate Objectives

IESO corporate performance in 2005
is measured against 4 objectives:

- Objective 1: Effective Use of Constrained Funds
- Objective 2: Market Evolution
- Objective 3: Customer and Stakeholder Satisfaction
- Objective 4: Operational Effectiveness

Objective 1: Effective Use of Constrained Funds – Total Spending

Performance Measure	Performance Expectation	2005 Result
Total spending (OM&A + Interest + Amortization) compared to the budget amount approved by the IESO Board	Total spending (OM&A + Interest + Amortization) is within the amount approved by the IESO Board	In 2005, total spending was $146.7 million, $4.9 million below the approved budget of $151.6 million. This resulted from positive variances in each of operating, maintenance and administrative (OM&A) costs, interest costs, and amortization costs. About 22% of the total $4.9 million positive variance, ($1.1 million from OM&A), was due primarily to the deferral or reprioritization of some initiatives. These included: $0.8 million in savings that resulted from the reprioritization of communications and market development initiatives including the Day Ahead Market, and Board of Director vacancies; and $0.3 million in telecommunication cost savings that resulted from a less than expected expansion in the remote monitoring infrastructure due to the Hydro One strike. The remaining 78% of the positive variance, or $3.8 million, resulted from a combination of other OM&A savings, reduced amortization and lower net interest costs: - $1.9 million in OM&A savings, to strong performance of IESO systems, resulting in savings in vendor support costs; contract renegotiations related to hardware support resulting in costs lower than expected; staff cost savings realized through effective management of staff expenses. - $1.1 million in reduced amortization, as a result of capital spending levels that were lower than budget. - $0.8 million in respect of net interest costs, largely the result of investment income in the year being higher than budget, largely associated with the Supplemental Employee Retirement Plan reserve. While deferral or reprioritization of some initiatives did result in a portion of the 2005 savings, IESO was able to deliver its promises in the year while fiscally managing the impacts of additional pressures from power system conditions during the summer, higher than anticipated workloads associated with our ongoing work with the Ontario Power Authority, and unplanned effort and costs resulting from Society picketing at the IESO's system control center during the Hydro One strike. Of note, the 2005 actual total spending level was more than $3.3 million less than the 2004 actual total spending level and the IESO maintained its usage fee at $0.959/MWh for the fourth straight year. Since the market opened in 2002, this has represented a real reduction in fees charged of approximately 7%. During 2005, the IESO proposed an additional fee reduction of $0.05/MWh, or over 5% for 2006. While not expressly included in this corporate performance measure, this result does reflect success in the active prioritization of capital investments, aggressive repayment of debt and ongoing scrutiny of spending in all areas, resulting in a solid financial performance in 2005. The IESO's strong performance in this area was recognized by market participants, as reflected in the results of the annual customer survey, which yielded a double-digit increase in the percentage of those surveyed who rated the IESO at 8 or higher out of ten in the area of effectively managing its financial resources.

Objective 1: Effective Use of Constrained Funds - Capital

Performance Measure	Performance Expectation	2005 Result
Capital spending associated with current operational mandate is performed within the budget amount approved by the IESO Board, timelines are met, and required results are achieved	Approved Capital expenditures in support of current operations are within budget and required results are delivered according to approved schedule	Capital spending was $10.1 million against an approved budget of $19.9 million. The $9.8 million positive variance resulted from ongoing prioritization and execution of the highest priority capital initiatives, while balancing the demands on capital resources against higher-risked operating areas of the business (e.g. strained power system operations in the summer period) and more demanding strategic & regulatory activities (e.g. continued extensive stakeholdering). The IESO responded by managing its affairs within prudent risk tolerances and stakeholder expectations. The sources of capital budget variances are: Capital Budget Variance Sources — $million 1. Future Projects – Deferral of projects included in the Business Plan — $3.6 2. Active Projects – Business Case approvals for similar funding level, timing of project initiation different than Business Plan assumptions — $2.2 3. Active Projects – Minor timing differences on spending (< one quarter) — $2.0 4. Active Projects – Material timing differences (> one quarter) — $0.4 5. Active Projects – Business case approvals lower than the Business Plan budget — $0.6 6. Completed Projects – Completion costs below approved budget — $1.5 7. Unplanned Projects — ($0.5) Total Variance — $9.8 A large part of the positive variance resulted from project deferrals or timing differences ($8.2 million), deferrals that have not introduced an unacceptable level of business risk to the IESO. As well, a material portion of the variance represents hard dollar savings ($1.6 million), a result of successful project cost and scope management. These results reflect good management of the IESO's capital program, which positively impacts the IESO's cash flows by reducing amortization charges, and facilitates more competitive IESO usage fees.

Objective 2: Market Evolution

Performance Measure	Performance Expectation	2005 Result
Appropriate evolution of the market is achieved and managed effectively	IESO displays appropriate flexibility in implementation to address legitimate stakeholder issues Recommendations to the IESO Board are made in a timely manner Approved capital expenditures for market evolution initiatives are within budget and required results are delivered according to approved schedule	The IESO focused on specific immediate issues and market participant concerns in 2005 to reinforce the foundation upon which further evolution of the electricity market can be undertaken. Stakeholder issues were considered and factored into the solutions implemented. In addition, the IESO supported the implementation of the Ontario government's hybrid market model and adapted its market evolution initiatives accordingly, and supported the efforts of the Ontario Power Authority to advance desirable market mechanisms such as an auction of forward energy. The IESO's progress in focusing attention on specific elements in the current market that are not functioning optimally has been recognized by the Market Surveillance Panel which gave a positive view of the operation of the wholesale markets through 2005 in their report issued in December. The Panel specifically noted the IESO's elimination of several inefficiencies through its actions (e.g. additional Control Action Operating Reserve, and far better tracking of pre-dispatch prices to actual prices). The Electricity Restructuring Act, Bill 100, which received Royal Assent in December 2004, significantly impacted market evolution plans for 2005. The IESO Board decided in December 2004 that prior to proceeding with development of a full-function Day Ahead Market (DAM) in 2005, consideration of alternative cost-effective solutions in the post-Bill 100 environment would be prudent. Development, review and stakeholdering of alternative solutions progressed through the first half of the year, culminating in stakeholder engagement sessions on June 15 and August 11, to discuss and assess alternative designs for day ahead planning and operational needs. In recognition of significant reliability concerns that arose throughout the summer 2005, including a number of public appeals and voltage reductions, the IESO's market evolution activities were refocused on ensuring adequate mechanisms are in place to address reliability issues more robustly in the near future. Throughout the fall of 2005, the IESO identified, and actively stakeholdered three key market-impactive initiatives targeted for implementation in preparation for the summer 2006 period: • Day Ahead Commitment Process (DACP) • Emergency Demand Response Program (EDRP) • Dispatch Issues (DI) The IESO's Board approved the DACP design in December, 2005. The EDRP re-design is anticipated to be considered by the Board at its February, 2006 board meeting. Both of the aforementioned initiatives involve and have benefited from extensive stakeholder engagement. Proposals regarding Dispatch Issues initiatives that address dispatch volatility and improve the management of plant operational requirements were stakeholdered in the fourth quarter, with recommendations also scheduled for the February, 2006 Board meeting. Redirecting its longer term day ahead market development toward delivering more immediate day ahead commitment results to support reliability in advance of the critical summer 2006 period was a positive indication of the IESO's flexibility and response capabilities The considerable rate of change experienced in redirecting programs to accommodate unfolding events while also leading market participants in this effort, was an additional consideration in the assessment of the progress of market evolution developments in 2005. During 2005, market changes were implemented in order to improve/reduce the issue of counter-intuitive pricing (ref. amendment MR-298). The impact will be a reduction in price-reducing effects of emergency control actions taken by the IESO. Also, changes were implemented regarding the use of Control Action Operating Reserve, which were accompanied by associated changes to IESO operating procedures during Operating Reserve shortage conditions to allow prices to more appropriately reflect such conditions. The benefits will be improved market signals that will be more reflective of shortage conditions. Both of these initiatives were discussed with stakeholders via the Market Pricing Working Group (MPWG). Value-added settlement changes were also implemented in response to market participant concerns. For example, the allocation to loads of large settlement adjustments will, in future, be based on consumption during the period when the error occurred rather than being allocated solely on the basis of current billing period consumption. Participants drove this change and initial feedback indicates satisfaction that IESO addressed these concerns. While there were no capital expenditures on specific market evolution initiatives in 2005, the OM&A funds budgeted in the IESO 2005-2007 Business Plan for market evolution related efforts ($3.2 million) were slightly under spent at year end ($2.7 million).

Objective 3: Customer & Stakeholder Satisfaction

Performance Measure	Performance Expectation	2005 Result
IESO is recognized by government and stakeholders as contributing to a successful implementation of public policy developments, and by customers and stakeholders as contributing to the successful evolution of the competitive segment of the hybrid market IESO's operation of the marketplace meets participants' and stakeholder needs	Performance relative to these measures will be assessed based on surveys, customer comments and other anecdotal evidence IESO is assessed to be an organization which continually satisfies its customers. This assessment will focus on three specific services: • Providing effective stakeholdering • Providing effective market information and communications • Providing support for customer inquiries, issues and training needs.	Stakeholder reaction to the overhaul of the IESO's stakeholder engagement process has been very positive, thereby representing a major turnaround from 2004. As well, market participants were receptive to the additional market information and communications provided to them by the IESO during 2005. The IESO continues to be the primary source that market participants use for market information and communications, while the IESO's training programs continue to be well received and rated. **<u>Stakeholdering</u>** In January 2005, the IESO contracted for an independent review of the IESO's stakeholder engagement processes and procedures. This was primarily in response to governance changes arising from the Electricity Restructuring Act 2004 which replaced the stakeholder Board with an independent Board of Directors, and stakeholder needs and experiences arising out of the existing stakeholder engagement process. On July 28, the stakeholder engagement review culminated with the adoption by the new IESO Board of the enhanced stakeholder engagement principles and processes, and the creation of a Stakeholder Advisory Committee (SAC). On September 20, 2005 the Ontario Energy Board issued its decision approving IESO's stakeholder engagement processes, concluding that stakeholder concerns had been addressed. SAC membership has been established. IESO decisions are benefiting from input received from stakeholders through the new stakeholder engagement process. Successful results to date include: Day-Ahead Commitment Process, Meter Error Correction, Emergency Control Actions and Counterintuitive Pricing, Global Adjustment in Actual Net Exposure, Corporate Performance Measures for 2006, and the 2006-2008 IESO Business Plan. Currently there are several additional stakeholder engagements underway. We have received excellent feedback collected through questionnaires issued at stakeholder sessions. As well, stakeholder satisfaction, as measured through IESO Technical Panel stakeholder membership support for IESO proposals and the Day Ahead Commitment Process amendments in particular, is significantly improved over the opposition experienced during 2004, especially in regards to the proposed Day Ahead Market Rules in 2004. An assessment of how the new stakeholder principles are being implemented and reflected on an on-going basis indicates that there is considerable evidence to support the 12 new stakeholder engagement principles implemented in 2005.

Objective 3: Customer & Stakeholder Satisfaction cont'd

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IESO is recognized by government and stakeholders as contributing to a successful implementation of public policy developments, and by customers and stakeholders as contributing to the successful evolution of the competitive segment of the hybrid market IESO's operation of the marketplace meets participants' and stakeholder needs	Performance relative to these measures will be assessed based on surveys, customer comments and other anecdotal evidence IESO is assessed to be an organization which continually satisfies its customers. This assessment will focus on three specific services: • Providing effective stakeholdering • Providing effective market information and communications • Providing support for customer inquiries, issues and training needs.	**Communications** Communications played a major role in creating awareness of and customer response to the appeals to cut back electricity use during periods when the electricity system was strained during the summer. The conservation actions helped maintain the reliability of the power system. A number of IESO publications helped drive understanding of the issues facing Ontario's electricity sector. These included the10-Year Outlook which in addition to the mailing of 3,000 copies, also generated 43,000 downloads from the IESO web site – a 600 per cent increase over the 2004 report. Market participants and other electricity customers increased their reliance on the IESO web site for relevant market and system information with almost 50 per cent more hits than in 2004. Customer education efforts aimed at the 50,000 large Ontario customers exposed to the market price increased significantly. These efforts helped these customers use the market to better manage their electricity costs. More than 40,000 copies of The Bottom Line On Energy Management were mailed to customers through their Local Distribution Company with an additional 17,000 downloads from the IESO web site. The IESO also entered into partnerships with the Canadian Federation of Independent Grocers, the Ministry of Economic Development and Trade, and Natural Resources Canada in order to provide customers with more sector specific education materials.

Objective 3: Customer & Stakeholder Satisfaction cont'd

Performance Measure	Performance Expectation	2005 Result
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Objective 3: Customer & Stakeholder Satisfaction cont'd

Performance Measure	Performance Expectation	2005 Result
IESO is recognized by government and stakeholders as contributing to a successful implementation of public policy developments, and by customers and stakeholders as contributing to the successful evolution of the competitive segment of the hybrid market IESO's operation of the marketplace meets participants' and stakeholder needs	Performance relative to these measures will be assessed based on surveys, customer surveys, customer comments and other anecdotal evidence IESO is assessed to be an organization which continually satisfies its customers. This assessment will focus on three specific services: • Providing effective stakeholdering • Providing effective market information and communications • Providing support for customer inquiries, issues and training needs.	**Independent Survey** The annual independent survey of market participants indicated: • Overall, the IESO-market participant relationship has stabilized since market opening. The small decline indicated in the previous year's survey, has reversed, returning the IESO to customer satisfaction levels approaching those attained in 2003. • Most (66%) believe the relationship has remained unchanged, with a slight increase in the number of participants who believe the relationship has improved. • Overall confidence in the IESO's performance increased slightly from an average rating of 7.1 in 2004 to 7.2 in 2005. • In a separate online survey with day-to-day market participant contacts, IESO performance was rated higher at 7.9. The IESO also rated favourably against other customer service providers in the areas of providing courteous, helpful, prompt and knowledgeable service.

Objective 4: Operational Effectiveness

<table>
<tr><th>Performance Measure</th><th>Performance Expectation</th><th colspan="4">2005 Status to Date</th></tr>
<tr><td rowspan="5">Control of tie line flows under normal & disturbance conditions meets or exceeds industry median</td><td rowspan="5">DCS, CPS1 & CPS2 meet/exceed median values of Eastern Interconnection Control Areas >10,000 MW</td><td colspan="4"><u>NERC Standards</u>
IESO control performance results for 12 months as of December 31, 2005 for CPS 1 and CPS 2 are better than the latest available corresponding NERC-wide median levels for control areas larger than 10,000 MW. The result for DCS equals the NERC median.</td></tr>
<tr><td rowspan="4">*North American Electric Reliability Council

**A higher number indicates better performance. NERC DCS result cannot mathematically exceed 100%</td><td>NERC* Measure</td><td>IESO</td><td>Median</td></tr>
<tr><td>CPS 1 - Control Performance Standard #1**</td><td>161.0%</td><td>144.2%</td></tr>
<tr><td>CPS 2 - Control Performance Standard #2**</td><td>96.4%</td><td>93.7%</td></tr>
<tr><td>DCS - Disturbance Control Standard**</td><td>100%</td><td>100%</td></tr>
</table>

Objective 4: Operational Effectiveness cont'd

Performance Measure	Performance Expectation	2005 Result
Electrical reliability is maintained within the province	IESO actions to avert/address significant reliability events are assessed as appropriate	**<u>IESO Reliability Actions</u>** In 2005, the IESO encountered several challenging individual system events. Hot, humid and dry weather beginning earlier than usual and continuing throughout the summer resulted in severe stress to Ontario's power system. These events and challenges were effectively managed by the IESO in order to maintain reliable supply and ensure the security of the interconnected power system. Additionally, the IESO launched a number of initiatives that will benefit Ontario and improve reliability in future. The IESO continued to influence the development of North American mandatory reliability standards through participation on numerous industry reliability committees, working groups and regulatory proceedings. The NPCC (Northeast Power Coordinating Council) Peer Group commended IESO performance for 2005. The peer review recognized the IESO's outstanding reaction to the challenges it faced during 2005. IESO was specifically noted for its active involvement and leadership on reliability related matters both within and outside the Province of Ontario. In addition, IESO was commended for its capabilities with respect to addressing unreliability events, emergency preparedness, and dispatch processes and procedures. Particularly, the NPCC review identified the following elements contributing to the very positive 2005 assessment: conducting Ontario's largest emergency preparedness exercise, compliance performance, business process improvements and reliability risk mitigation. The group also found that the IESO's incident follow up process be cited as an industry "best practice" and model for other ISOs. In 2005, NERC (North American Electric Reliability Council) identified a total of 54 Examples of Excellence from member organizations, practices that they deem are exceptionally effective in ensuring and protecting the reliability of the interconnected bulk electric system. The IESO along with Tennessee Valley Authority, at 5 practices each, were notable for having the most number of excellent practices identified in 2005. The IESO was identified by NERC for excellence in the areas of training, real-time monitoring, reliability/market operations backup capabilities, load shedding, and market rules.

Objective 4: Operational Effectiveness cont'd

Performance Measure	Performance Expectation	2005 Result
Market systems and processes operate effectively	Assessed on a suite of market operation performance measures	**Market Operations Performance Measures** Performance related to 26 operational performance measures is very good. In 2005, 23 measures met or bettered their targets, while three measures did not achieve their target level. The three measures that did not meet their targets were: Day at Hand Hourly Demand Forecast Bias - 3 Hours Ahead of Dispatch (marginally off target at 5.1% vs. a target maximum +5% Bias), Preliminary and Final Settlement Statement timeliness (marginally off target at 98.6% vs. a ≥99% target), and Administrative Pricing Frequency (435 intervals vs. a target of ≤350). The root causes for not meeting the targets have been assessed and the IESO has implemented measures to increase the probability of meeting these targets in future. In addition to the quantitative assessments provided by the suite of 26 operational measures and targets, there were a number of initiatives taken in 2005 that contributed to operational effectiveness: 1. The IESO was re-organized to better manage its responsibilities under the hybrid market model. Among other things, the re-organization created a new Reliability Assurance Business Unit in recognition of the challenges facing the Ontario electricity industry as it faces the largest infrastructure change in its history. 2. An increased focus on creating close working relationships with the Ontario Power Authority to help align IESO actions on reliability as well as to avoid duplication, minimize overall costs, and ensure that we are working toward a common vision for the evolution of the Ontario market. 3. In response to the unprecedented emergency control actions that were required in the summer and fall of 2005, the IESO introduced four reliability impacting initiatives to provide increased reliability assurance in preparation for Summer 2006; Day Ahead Commitment Process (DACP), Emergency Demand Response Program (EDRP), Dispatch Issues (DI), and various improvements to intertie protocols. 4. The IESO re-oriented certain reports to identify possible solutions, in addition to identifying needs.

Market Operations Performance Results

Market Operations Performance Results to the end of December 2005

Category/Name	Measure	Criteria	Performance Standard	2005 Result
Provide Sufficient Information For Effective and Successful Bids and Offers				
Implement Intertie Schedules	Accuracy	Average for the year	≥98%	99.8%
Publish SAA's and SSR's	Timeliness	Published as per schedule	≥98%	98.2%
Day Ahead Hourly Demand Forecast	Accuracy	Average absolute error for the year	≤2.5%	1.9%
		Average bias range for the year	–5%≤ BIAS ≤+5%	1.2%
Day at Hand Hourly Demand Forecast - 3 Hours Ahead of Dispatch	Accuracy	Average absolute error for the year	≤2.0%	1.3%
		Average bias range for the year	–5%≤ BIAS ≤+5%	5.1%
Day at Hand Hourly Demand Forecast - 1 Hour Ahead of Dispatch	Accuracy	Average absolute error for the year	≤1.5%	0.9%
		Average bias range for the year	–5%≤ BIAS ≤+5%	-0.8%
Outage Request Processing	Accuracy	Processed vs. Valid	≥97%	99.7%
Transmission Rights Auction Processing	Timeliness	Processed as per schedule	≤1 failure to complete a full auction per year	0 failures
Continuous Operation Of the Market	Frequency of Market Suspension	Number of market suspensions per year caused by the IESO	0 suspensions	0 suspensions
	Duration of Market Suspensions	Total duration of market suspensions per year caused by the IESO	0 hours	0 hours

Indicates result met or exceeded standard

Indicates result did not meet standard

Market Operations Performance Results to the end of December 2005

Category/Name	Measure	Criteria	Performance Standard	2005 Result
Market Services				
Settlement-ready Meter Data	Timeliness	Available next trading day	≥99.3%	99.4%
Meter Trouble Reports Issued to Meter Service Providers	Timeliness	Available next business day	≥88%	96.9%
Meter Trouble Reports Closed	Timeliness	Closed on the 1st business day after the receipt of a satisfactory resolution from the Meter Service Provider	≥88%	96.8%
Preliminary and Final Settlement Statements	Timeliness	Issued as per schedule	≥99%	98.6%
	Accuracy	No IESO errors	≥99%	99.8%
Help Centre Performance	Average time to close an open ticket	Average for the year	≤12 days	11.2 days
Invoice Market Participants				
Issue Invoices	Timeliness	As required per *IESO Settlement Statement Payments Calendar*	≥99%	100%
	Accuracy	Average for the year	≥99%	100%

Indicates result met or exceeded standard

Indicates result did not meet standard

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Market Operations Performance Results to the end of December 2005

Category/Name	Measure	Criteria	Performance Standard	2005 Result
Administrative Pricing				
Administrative Pricing (AP)	Frequency	Number of occurrences of AP per year	≤75	60
	Duration	Number of intervals AP applied per year	≤350	435
Market Facing Systems Availability				
Outbound Market Reports Publication	Availability	Average for the year as per respective schedule	≥99.0%	99.7%
Market Participant Interface	Availability	Average for the year	≥99.0%	99.9%
Dispatch & Scheduling Instructions	Availability	Average for the year	≥99.5%	99.6%
Corporate Web Site	Availability	Average for the year	≥99.0%	99.6%

Indicates result met or exceeded standard

Indicates result did not meet standard