



Independent Electricity Market Operator



2005-2007 Business Plan

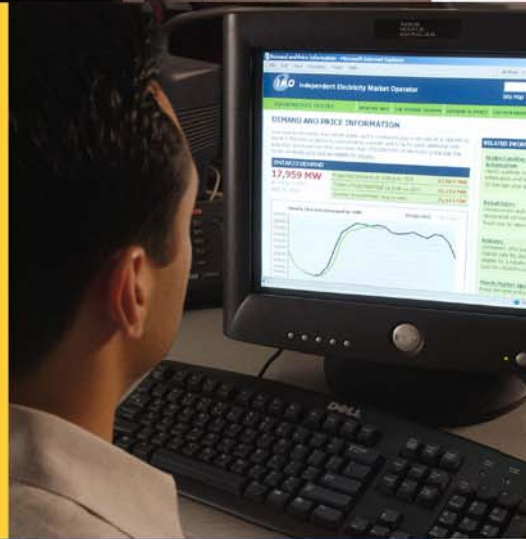


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Business Planning Objectives

The IMO's 2005-2007 Business Plan has been developed to fulfill a number of key business objectives. These include:

- Maintaining high operational standards and practices, and addressing priority reliability requirements.
- Supporting the implementation of the government's revised model for Ontario's electricity sector.
- Continuing to address customer expectations to enhance the market, with a priority on the development of the Day Ahead Market.
- Building customer and stakeholder confidence in the Independent Electricity Market Operator (IMO) for its critical role in the reliable operation of the power system and effective management of the IMO-administered markets.
- Providing independent, strong and comprehensive market oversight to protect all stakeholders.
- Maximizing the effective, efficient and sustainable use of IMO resources.

The new industry structure outlined in Bill 100 establishes the government's framework to address reliability, conservation, investment and pricing issues that have surfaced since the sector was restructured in 1998.

The IMO is committed to doing its part to ensure a successful implementation of the new structure envisioned under Bill 100 and to ensure Ontario consumers continue to enjoy the benefits of an economic and reliable supply of electricity.

The 2005-2007 Business Plan has been developed to address these objectives within the current usage fee of \$0.959/MWh, a fee that has remained unchanged since market opening in 2002.

The Way Forward

Bill 100 represents a major restatement of provincial public policy that will have a wide-ranging effect on the IMO – on its governance, on its relationships with others, and on its priorities going forward.

Clearly a top priority for the IMO over the planning period is to continue to support the development and implementation of the provincial government's public policy initiatives as currently identified in Bill 100. The IMO recognizes that the evolving industry structure will require close coordination and cooperation among the IMO, the Ontario Energy Board (OEB) and the Ontario Power Authority (OPA.) An underlying objective over the business planning period will be to develop and maintain the required relationships, in order to ensure the implementation of the new organizational mandates without duplication or omission.

At the same time, the IMO needs to manage its own **transition to the IESO**. This will require changes to a number of business processes. For example, the process for modifying market rules will be affected by the governance changes regarding the role of our Board of Directors and its Technical Panel and by the evolving role of the OEB. It will also require a reconsideration of our **consultation and governance** structure and processes.

The IMO will build on the considerable stakeholdering that has been done under the current structure to support **continued market evolution**. The development of a Day Ahead Market is a priority item.

This Business Plan also responds to the growing need to address **future system needs**. The retirement of coal generation will commence in 2005 with the closure of the Lakeview Generating Station. Maintaining a secure and reliable power system during this period of dramatic change in Ontario's generation profile will be a major focus for the entire business planning period.

The IMO's demonstrated competencies in operating both the market and the power system will also need to be continued. **After the blackout, reliability assurance** means making the investment necessary to maintain our high operational standards and practices, as well as addressing evolving industry reliability requirements.

Transition to the IESO

While there is a name change to the Independent Electricity System Operator (IESO), the organization's primary roles and responsibilities around system and market operations will continue, as will the independence from market participants.

Bill 100, if passed, will establish new governance and institutional arrangements for the IMO. The proposed legislation includes the establishment of a new Board of Directors that comprises only independent members, the creation of the OPA and an expanded role for the OEB.

While the institutional arrangements may be more complex, the skill sets in the IMO/IESO can provide the OPA with support in meeting the new responsibilities assigned to it for a long-term integrated system plan for generation, transmission and conservation. It is important for both organizations to determine how best to leverage the IMO's expertise to maximize the effectiveness of the new structure.

The proposed legislation also calls for the Market Surveillance Panel (MSP) to report on its monitoring activities to the Ontario Energy Board. The powers of the MSP, to investigate any activity related to the IMO-administered markets or conduct of a market participant, remain unchanged. The IMO will work with the OEB to ensure that the work of the Market Assessment Unit continues to support the Market Surveillance Panel as it does today, while providing vital operational and analytical work for the future IESO, including support for the compliance function.

Other initiatives are underway to meet Ontario's future electricity requirements. The provincial government launched a series of Requests for Proposals (RFP) for 2800 MW of new capacity – from either new generation or demand management initiatives. The Minister of Energy has also given the go-ahead for the restart of an additional generating unit at Pickering A as well as expanded capability at the Beck generating station in Niagara Falls. These new projects are key steps toward achieving the provincial commitment to phase out coal.

As the province continues through this process of restructuring, the IMO has a clear role in supporting a seamless transition while maintaining reliable system operations and fair and efficient market administration.

The activities outlined in the Business Plan address the responsibilities and objectives of the IMO/IESO in the new industry structure, including the needed evolution of Ontario's electricity market. There remains, however, a great deal of uncertainty as to the level of demands that might be made of the IESO. These uncertainties relate to the level of support required from the IESO to the OPA, regulatory activity at the OEB, and the current and potential future new capacity initiatives. While no additional resources have been specifically identified in the Business Plan to address these uncertainties, the IMO anticipates that significant support will be required for a successful transition to the new structure.

Consultation and Governance

The impact of restructuring Ontario's power system is far-reaching – for market participants, homeowners, business and industry – as well as with our neighbouring jurisdictions. This necessitates successful and productive consultation with all stakeholders.

The IMO will be reviewing its consultation process to better address current business objectives. The establishment of a Board of Directors comprising independent members, consideration of a new process for stakeholder input and changes to the Market Rule process provide an opportunity for the IMO to assess and improve the way it solicits, interprets and acts on stakeholder feedback.

Continued Market Evolution

One of the major challenges for the IMO/IESO over the business planning period is to continue to evolve Ontario's electricity markets to reinforce the operation of an efficient and reliable power system that continues to meet the province's electricity needs now and in the future.

As outlined in the 2003-2005 Business Plan, the Market Evolution Program (MEP) is intended to enhance the operations of the wholesale market. MEP components are directed at both near and long-term needs.

Ontario's electricity system is currently operated on a real-time basis. Generators are asked to produce and consumers purchase electricity on a real-time basis. While this "just-in-time" system has worked well over the last few years to maintain reliability, this system needs to evolve further to provide a greater level of price stability and supply security.

Adding both a Day-Ahead Market (DAM) and a Resource Adequacy Market (RAM) to the existing real-time market would establish a more comprehensive approach to managing Ontario's power system. As has been shown in other jurisdictions, a well designed day-ahead market can meet a number of objectives. As contemplated for Ontario, it would:

- Provide greater operational certainty ahead of real-time operations for suppliers and consumers.
- Increase load participation and promote greater resource adequacy in the IMO-administered markets through demand-side response.
- Provide price certainty in advance of real-time dispatch.
- Through a day-ahead financial commitment, assure that sufficient resources are on-line in real-time for inclusion in the market.

- Provide an improved index to support forward markets.
- Be compatible with markets in neighbouring jurisdictions, to facilitate efficient and reliable trade between these markets to the extent possible.

Taken together, meeting these objectives will provide additional protection to consumers with respect to the reliability, price and quality of electricity service.

The detailed design of the DAM is scheduled for completion by the end of January 2005, with implementation targeted in the latter part of 2006. If approved, the next phase would be to build and test the market systems and processes – and would represent a considerable capital program for the organization, details of which can be found in the financial outlook section of this document. The IMO has initiated a process to identify vendors and obtain firm costs from qualified vendors for building the necessary infrastructure for the DAM. In addition to assessing the total funding required, the IMO, as part of its regular process in reviewing capital expenditures, will determine whether there are opportunities to modify the proposed design to achieve material cost savings without significantly compromising the objectives for the DAM.

A Resource Adequacy Market would address the need for longer-term commitments for new power generation and demand management to meet the province's needs over the coming decades. This initiative would also complement the responsibilities of the proposed Ontario Power Authority as the "buyer of last resort."

Taking the form of an auction, the RAM would procure specified levels of resources and require their participation in the IESO administered markets. The required resource mix and regional requirements identified in the integrated system plan would be incorporated into the auction process. The design of the proposed initiative is currently in the final stages of consultation with the objective of having the RAM market rules developed by December, 2004. This would accommodate the implementation of a RAM on relatively short notice - potentially for the second half of 2005 - but to date, there is no decision or approval to proceed with implementation. The capital outlay contemplated for this initiative is under one million dollars.

Together, the three markets would support demand and supply-side investment, a more efficient allocation of generation resources, and facilitate increased load response.

Future System Needs

In its most recent 10-Year Outlook, the IMO indicated that it expects demand within the province to increase approximately one per cent each year for the next decade. By 2014, roughly 13,000 MW of Ontario's electricity requirements will need to be met with a combination of new supply, refurbished generation and conservation measures.

To address this challenge, the Ontario government is seeking 2,500 MW of new electrical generation capacity and/or demand-side management initiatives to be in place as early as 2005. In addition, it is seeking up to 300 MW capacity from renewable energy sources. The IMO is focusing resources on its organizational units that support the integration of new resources into the IMO-controlled grid. These functions include specification of system requirements, connection assessments, support for the RFP process, and participation in the associated regulatory proceedings.

The restructuring of Ontario's supply infrastructure will dramatically change the province's generation profile. This has required a ramping-up of our capability to conduct connection assessments to ensure that reliability and operational impacts are properly assessed and accommodated as the Ontario power system undergoes this fundamental transition. The volume of work in this area has, and continues to, increase substantially and is an urgent priority for us in meeting the government's agenda.

At the same time, as these changes occur, they require reassessment and recalculation of the entire suite of the security limits to which the system must be operated in order to provide a reliable, stable flow of electricity within Ontario and across the interconnected grid. The pressures arising from the changing Ontario system, combined with the increased attention required to address blackout recommendations, must be responded to if we are to meet our reliability responsibilities – a core part of our current mandate and under Bill 100.

The government has also set a conservation target of five per cent by 2007, which represents approximately 1,350 MW at peak demand. The IMO will help achieve this target by promoting increased demand response to the price signals set in the market. For example, the Transitional Demand Response Program will provide a catalyst for wholesale consumers to invest in energy management technology and expertise. The IMO will also increase its efforts to promote awareness and action among wholesale customers to help them better manage their electricity costs.

After the Blackout – Reliability Issues

While it is clear that the blackout of 2003 was triggered by a number of failures from outside the Ontario power system, it has put the spotlight on what is needed to improve procedures and practices across this industry.

To address these issues, the North American Electric Reliability Council (NERC) has conducted audits of control areas, including Ontario. The results of the audit demonstrated that the IMO meets or exceeds the standards for electricity system reliability. It concluded that the IMO personnel, facilities, tools, and training are excellent and that the IMO has a robust restoration plan that worked well during the blackout. Nevertheless, continued diligence in system operation, and meeting the

tighter standards being put in place in the wake of the blackout, are a key requirements for the IMO.

Throughout 2005, the IMO will continue working with Market Participants, Northeast Power Co-ordinating Council (NPCC), NERC and the provincial and federal governments to sustain or further improve the reliability of the interconnected power system.

The IMO's response to the Blackout recommendations includes initiatives that:

- Enhance the IMO's information technology and telecommunications capability to support real-time operations through emergency conditions.
- Continue our robust training programs, including comprehensive emergency response exercises involving Market Participants and government.
- Improve the IMO's ability to communicate grid status and future outlook to Market Participants and the general public.
- Actively participate in NPCC and NERC initiatives to further develop reliability standards applicable across North America.
- Continue to apply reliability standards within Ontario, through the IMO's reliability compliance program.
- Actively contribute to industry initiatives to improve physical and cyber security, in collaboration with government.
- Build relationships with other critical industry infrastructures such as telecommunications and oil and gas to better understand interdependencies and optimize response during large-scale emergencies.

Reaching Out To All Wholesale Customers in Ontario

The introduction of fixed electricity prices for residential consumers and small businesses in November 2002, created a new class of electricity customers of those remaining businesses that continued to pay the wholesale price. This customer class, which individually consumes more than 250,000 kWh a year have now been exposed to the wholesale rate for more than two years. Yet, for a significant portion of this group, there is little evidence that they have responded to market prices by changing the way they use electricity.

IMO research has determined that while these customers represent just over one per cent of all consumers in the province, they account for 37 per cent of load. More than four-fifths of these customers do not use interval meters and a significant portion do not understand the ways that they can better manage their energy use to take advantage of fluctuating prices.

For long-term reliability, it is vitally important that this customer group becomes more actively engaged in energy management and benefit from wholesale price signals.

In 2004, the IMO developed a number of products aimed at these customers that were designed to promote greater understanding about market prices and the tools available to them to manage these costs. The IMO Web site now offers a section targeted specifically to this group. It has also held roundtable discussions in communities throughout the province to engage community leaders (including businesses) in discussion about electricity issues.

In addition, the Market Year in Review was issued specifically for this target audience, under the banner “Making the Spot Price of Electricity Work for You.” More than 15,000 copies have already been distributed through the Local Distribution Companies (“LDCs”) to wholesale customers, generating considerable positive interest.

For 2005, the IMO has been stepping up these efforts to more effectively harness the energy management potential this audience can offer. The IMO Board has given approval for the development of a customer education program, supported by the \$2.2 million Consumer Education Fund that was derived from sanctions and voluntary settlements collected by the IMO.

In partnership with LDCs and trade associations, the program will create the content for energy management awareness initiatives. A tool kit for consumers will be created focusing on key sectors such as resources, hospitality, retail and manufacturing with specific strategies on how to manage energy use. Key components of the program will be to explain how to interpret demand and price information and promote a better understanding of the factors that influence price.

Although staff support will be provided by the IMO, the Consumer Education Fund resources will not be used to fund IMO activities currently under the IMO business plan and will not be directed at current IMO staff costs.

Implementation and Corporate Performance Measures

Implementation

As discussed throughout the Business Plan, the IMO has identified a number of measures to manage its resources to address the challenges over the business planning period. These measures include:

- Augmenting the resources for connection assessments and approvals to address the generation and transmission infrastructure changes flowing from Ontario's commitment to replace coal-fired generation and the need to replace aging facilities.
- Focusing resources on the need to review and revise Operating Security Limits as the generation inventory is modified.
- Acquiring enhanced technology, for example, the acquisition of new analytical tools to support the derivation of Operating Security Limits.
- Providing operations support to the proposed Day-Ahead Market Project in order to assure that it is efficiently integrated into the production environment.
- Reassessing priorities to focus on high-priority activities as assessed by stakeholders.
- In the regulatory arena, resources will be shifted away from the U.S. Federal Energy Regulation Commission (FERC) and the U.S. Department of Energy as well as on U.S.- focused Independent System Operator issues to concentrate on Ontario's increasingly complex regulatory environment.
- In conjunction with the increased challenges associated with the regulatory environment, the IMO intends to review its consultation process with the specific objective of improving relationships with customers and key stakeholders.

Finally, the IMO needs to ensure that its overall resource base is sustainable going forward. This includes traditional areas of asset management as well as a focus on human resources to address the potential for high staff attrition in key business areas over the plan horizon. This will require the careful management of the IMO's pool of specialized technical experts, many of whom are eligible to retire within the plan horizon. To successfully address this challenge, the IMO will need to continue to hire, develop and train within a well-defined plan to ensure that the company has experienced analysis and operational capability going forward.

Corporate Performance Measures

The IMO measures corporate performance using a balanced scorecard approach to assess four areas:

1. Effective use of funds - assessed in terms of both total costs (OM&A + interest + amortization) and capital spending in comparison with amounts approved by the Board of Directors.
2. Marketplace evolution - assesses the timeliness of recommendations to the Board and the achievement of results within approved capital budgets and schedules.
3. Customer /stakeholder satisfaction - assessed based on surveys, customer comments and anecdotal evidence and which is focused on the following specific services:
 - Providing effective stakeholding.
 - Providing effective market information and communications.
 - Providing support for customer inquiries, issues and training needs.
4. Operational effectiveness - assessed in terms of:
 - Control of tie line flows under normal and disturbance conditions.
 - The appropriateness of IMO actions to avert or address significant reliability events.
 - The effectiveness of market systems and processes. This is further supported by a suite of 23 operational performance measures.

Performance results to the end of August 2004 are provided in Appendix 5 entitled, "2004 Corporate Performance – Performance to the end of August." The majority of targets are assessed as "on track." However, three of the 23 operational performance targets are currently assessed as being at risk of not being met. These are: Dispatch and Scheduling Instructions, Day-Ahead Hourly Demand Forecast Bias and Administrative Pricing Duration.

Based on stakeholder suggestions and experience with the current performance measures, we are proposing to retain the overall format, but incorporate a number of changes for 2005, such as:

- Increase the timeliness target for the publishing of the Security and Adequacy Assessment and System Status Reports from 97 per cent of time to 98 per cent.
- Introduce new targets to measure the accuracy and bias of Day-at-Hand demand forecasts.
- Incorporate the requirement to publish price every five minutes into the Outbound Market Reports Publication measure.

- Revised administrative pricing frequency and duration targets to reflect changes that have been made to the Market Rules.

As described more fully later in this document under the section “Status of Prior Year’s Settlement Agreement and Ontario Energy Board Rate Order Undertakings”, the 2005 corporate performance measures and targets were stakeholdered via the Regulatory Affairs Standing Committee. The proposed changes address issues discussed in that forum and reflect improvements to certain performance targets.

The draft 2005 performance metrics are scheduled to be considered by the IMO Board of Directors in December, 2004.

Actual 2003 and Projected 2004 Financial Results

The actual 2003 and projected 2004 financial results demonstrate the IMO's commitment to operate in a financially prudent manner while meeting its legislative and Market Rule obligations and address the challenges facing Ontario's electricity sector. Disciplined cost management helped to ensure that the overall results for both 2003 and 2004 were better than expected, despite lower than projected revenues.

2003 Actual Operating Results

(\$ millions)	2003 Actual	2003 Projected	Variance
Usage Fees	148.9	149.3	(0.4)
Market-related Interest Income	4.2	5.0	(0.8)
Cost Recovery for Services	0.9	1.1	(0.2)
Total Revenues	154.0	155.4	(1.4)
OM&A Program Costs	75.1	78.6	3.5
OM&A Pension Expense	4.1	4.2	0.1
Market Evolution Program	3.1	3.8	0.7
Amortization	51.2	49.8	(1.4)
Interest	17.8	18.2	0.4
Total Costs	151.3	154.6	3.3
Operating Surplus	2.7	0.8	1.9
Accumulated Operating Surplus	13.4	11.5	1.9

In its 2004-2006 Business Plan, the IMO projected a net operating surplus of \$0.8 million for 2003. The actual results for the year show an operating surplus of \$2.7 million, a \$1.9 million improvement from the projected results. These results are a reflection of the continued effect of disciplined cost control, particularly during the latter portion of 2003, while, at the same time, absorbing lower than expected revenue levels.

2003 total revenues were \$154.0 million, \$1.4 million below the level projected in last year's plan. This variance was a result of:

- Energy levels that were slightly below projected levels, generating lower revenues from the IMO Administration Fee.
- Lower than expected Market Power Mitigation Rebate (MPPR) payments resulting in the IMO having fewer funds to invest and earn interest on.
- Lower than expected levels of revenues from cost recovery services due to the IMO performing fewer than planned connection assessments.

2003 total costs were \$151.3 million, \$3.3 million lower than the projected level due to the following:

- OM&A program costs (\$3.5 million below projection)
 - Computer support, maintenance and equipment costs were \$1.1 million below projection due to lower than projected price escalation for outside costs and lower than expected usage levels of outside support in relation to our major market systems.
 - Consultants and contract services that were \$1.0 million below projection due to the uncertainties related to a change in government driving a prudent curtailment of expected corporate activities and an overall business-wide effort that succeeded in spending less than projected on all outside services.
 - Telecommunication costs that were \$1.0 million below projection due primarily to the successful management of a 2002 issue related to system voice circuits, resulting in the reversal of the related accrual.
 - Administration costs that were \$0.4 million lower than projected due primarily to repair work at the control centre being delayed until 2004.
- Actual Market Evolution Program costs were \$3.1 million for 2003, \$0.7 million below the projected level, resulting from lower than expected costs in the year related to the DAM.
- Actual amortization was \$51.2 million in 2003, \$1.4 million higher than the \$49.8 million projected in last year's plan. This increase was the result of expensing in the year decommissioning costs associated with the Data Acquisition and Computer Systems.
- Interest was \$0.4 million lower than projected due to higher than expected investment income in the latter half of 2003 which served to offset the interest expense on corporate debt.

Accordingly, the accumulated surplus balance at the end of 2003 was \$13.4 million, \$1.9 million better than anticipated in the 2004-2006 Business Plan.

2004 Projected Operating Results

(\$ millions)	2004 Projected	2004 Budget	Variance
Usage Fees	150.6	148.6	2.0
Market-related Interest Income	2.3	5.1	(2.8)
Cost Recovery for Services	1.2	1.0	0.2
Total Revenues	154.1	154.7	(0.6)
OM&A Program Costs	80.3	83.1	2.8
OM&A Pension Expense	7.2	7.5	0.3
Market Evolution Program	3.8	1.7	(2.1)
Amortization	52.9	52.5	(0.4)
Interest	9.2	11.4	2.2
Total Costs	153.4	156.2	2.8
Operating Surplus/(Deficit)	0.7	(1.5)	2.2
Accumulated Operating Surplus	14.1	10.0	4.1

Usage Fees

Usage fee revenue for 2004 is projected to be \$150.6 million, approximately \$2.0 million greater than budget. The increase in revenues in this account is a direct result of increased load volumes within the IMO-Administered Markets. The expected energy volumes for 2004 are projected to be 157.0 TWh, or 2.0 TWh higher than the energy forecast of 155.0 TWh that was issued in September 2003, as higher exports more than offset lower Ontario demand.

Market-Related Interest Income

Market-related interest income represents the interest earned by the IMO through the IMO-Administered Markets settlement clearing bank accounts. There are three ways by which interest on market funds can accrue to this IMO account. In its settlement of the market, the IMO typically collects funds from owing market participants (i.e. buyers) and then pays the receiving market participants (i.e. sellers) two business days later. In the period between receipt and disbursement of market funds, the monies are invested with interest earned thereon accruing in the settlement clearing account. In addition, market participants make periodic prepayments and similarly these monies are invested with interest accruing to the settlement clearing account. Lastly, the Business Plan Protection Rebate ("BPPR") is executed on a quarterly basis and the interest earned on the funds held during the settlement cycle are also included in the settlement clearing account.

The projected 2004 revenues of \$2.3 million are from the interest earned on the above-described funds and represent a negative variance of \$2.8 million relative to budget. This variance is primarily attributed to interest earned in relation to a much lower level of BPPR funding. For 2004, the projected interest in this area is approximately \$0.4 million, \$2.4 million lower than budget. The remaining variance of \$0.4 million is largely the result of lower than expected interest rates on invested funds.

Cost Recovery for Services

Cost recovery for services represent fees charged by the IMO for services provided, charged on a cost recovery basis. In 2004, those fees are projected to be \$1.2 million and represent work on connection assessments (\$1.1 million) and training (\$0.1 million). The projected variance of \$0.2 million is the result of an increase in the volume of connection assessments.

OM&A Program Costs

The following table outlines the projected 2004 OM&A program costs relative to budget.

(\$ millions)	2004 Projected	2004 Budget	Projected Variance
Staff Costs	52.1	54.1	2.0
Computer Support, Maintenance and Equipment	11.9	11.8	(0.1)
Consultants and Contract Services	7.7	8.0	0.3
Administration	5.7	6.1	0.4
Telecommunications	2.9	3.1	0.2
Total OM&A Program Costs	80.3	83.1	2.8

Staff costs, which represent all operating costs associated with staffing, excluding pension expense, are projected to be \$52.1 million in 2004. That projected spending level would be about \$2.0 million under budget and would represent almost seventy per cent of the overall variance related to OM&A program costs. The projected variance in staff costs is due to lower than planned staff levels and staff redirected to capital or Market Evolution Program work.

Computer support, maintenance and equipment costs are projected to be \$11.9 million in 2004, essentially equivalent to budget.

Consultants and contract services are projected to be \$7.7 million, or about \$0.3 million below the 2004 budget of \$8.0 million. This spending level is largely consistent with budget. The following represent some of the largest items included in the 2004 projected costs: Board of Director fees; insurance costs; legal fees; external audit fees; services in relation to connection assessments; and banking and payroll service costs.

Administration costs are projected to be \$5.7 million, \$0.4 million below budget for the year. This variance is largely due to lower than expected property taxes and favourable exchange rates on the NPCC membership fees.

Telecommunication costs are projected to be \$2.9 million, \$0.2 million below budget. This variance is largely due to savings in the year associated with the IMO abandoning plans to make changes in telecom service arrangements, removing the requirement to run a period of parallel data retrieval. These savings were somewhat offset by higher than anticipated cost increases in other areas of telecommunication costs.

Market Evolution Program

Operating costs associated with the Market Evolution Program for 2004 are projected to be \$3.8 million, or about \$2.1 million above budget. The projected 2004 spending level is comprised of approximately: \$2.6 million for the DAM; \$0.5 million for Long-term Resource Adequacy (LTRA); \$0.3 million for Program Management; \$0.3 million for Market Pricing Issues; and \$0.1 million for Short-term Resource Adequacy (STRA).

DAM operating costs were budgeted at \$1.2 million for 2004. The projected spending level is \$1.4 million higher than budget since a larger degree of effort went into stakeholdering and the initial phases of the project, including high-level design. All such costs are expensed for accounting purposes.

In 2004, a great deal of stakeholdering related to LTRA has been undertaken and a high-level design of a Resource Adequacy Market is expected to be completed this year. In last year's business plan, it was expected that this initiative would largely be in the implementation phase 2004, accordingly, the costs were expected to be capital in nature.

The market pricing initiative was not included in the 2004-2006 Plan. This initiative relates to work required on reviewing the nature and drivers of market pricing.

In 2004, the IMO implemented Multi-Interval Optimization ("MIO"), which was designed to improve the real-time market dispatch algorithm by anticipating the dispatch of resources in future intervals so that a more optimal dispatch would be provided for each resource.

STRA represents the 'Hour Ahead Dispatchable Load' program developed and operated by the IMO.

MEP program management costs were not expressly included in the MEP operating budget for 2004 since much of MEP was budgeted to be capital in nature. As such, the related program management costs were also budgeted to be capital.

Amortization

The projected amortization costs for 2004 are \$52.9 million, or approximately \$0.4 million higher than budget. This variance results primarily from the net impact of shortening service lives for some major market systems, almost entirely offset by lower than planned capital spending in 2003 and 2004. The impact of this change in service lives is an estimated increase in amortization of approximately \$2.6 million for 2004.

This increase is largely offset by the positive variance of \$2.2 million resulting from lower than planned capital spending in 2003 and 2004. Consistent with sound

accounting practices, the IMO reviews its asset service lives on an annual basis. A significant factor in this review is the capital plan within the business plan. In this year's business plan, there are expressed plans and funding identified for the replacement of much of the existing major market systems over the planning horizon (or in 2008). Therefore, it was necessary and prudent to make the related adjustments to the affected asset service lives. The review determined that no adjustments to the estimated useful service lives were required for any other assets.

Interest

Interest expense is projected to be \$9.2 million, or \$2.2 million below the budget of \$11.4 million. This positive variance is the result of the unplanned repayment of \$50.0 million in long-term debt, owed to the Province of Ontario, in 2004. In addition, interest rates were lower than anticipated. The combination of lower debt levels and lower interest rates resulted in lower than planned interest costs associated with this debt.

Accumulated Surplus

The accumulated surplus at the end of 2004 is projected to be approximately \$14.1 million, resulting from a projected operating surplus of \$0.7 million in the year added to an opening balance of \$13.4 million. This projected closing balance is \$4.1 million higher than the 2004 closing balance budgeted in last year's business plan.

Most of the opening surplus balance of \$13.4 million relates to: the surplus in fiscal year 2000 of approximately \$10.2 million, largely a result of the extension in market opening; combined with the surplus of \$2.7 million in 2003, largely a result of unbudgeted market-related interest income associated with the Market Power Mitigation Rebate. Together, those two years account for \$12.9 million, or ninety-six per cent of the opening balance. The residual \$0.5 million in the opening balance is the cumulative net effect of operating results since 1999 which included a net deficit of \$1.6 million in 1999 and modest surpluses of \$1.0 million in 2001 and \$1.1 million in 2002.

2004 Projected Balance Sheet

The following represents a summarized projected balance sheet as at December 31, 2004, in comparison to budget.

(\$ millions)	2004 Projected	2004 Budget	Projected Variance
Cash, Cash Equivalents and Temporary Investments	47.5	58.0	(10.5)
Accounts Receivable and Short-term Prepaid Expenses	18.3	20.0	(1.7)
Current Assets	65.8	78.0	(12.2)
Property and Equipment	175.1	208.1	(33.0)
Long-term Investments	7.9	7.6	0.3
Prepaid Pension Expense	22.1	22.5	(0.4)
Total Assets	270.9	316.2	(45.3)
Accounts Payable, Accrued Liabilities and Accrued Interest	23.0	22.4	0.6
Long-term Debt	203.2	253.2	(50.0)
Accrual for Employee Future Benefits other than Pension	28.5	28.4	0.1
Total Liabilities	254.7	304.0	(49.3)
Accumulated Operating Surplus	14.1	10.0	4.1
Accumulated Market-related Sanctions and Voluntary Payments	2.1	2.2	(0.1)
Total Liabilities and Surplus	270.9	316.2	(45.3)

The following outlines the material projected balance sheet variances relative to budget:

The balance of cash, cash equivalents and temporary investments at the end of 2004 is projected to be \$47.5 million, or about \$10.5 million lower than budgeted. This variance is largely due to the early repayment of \$50.0 million in long-term debt, partially offset by lower expenditures of \$35.6 million related to property and equipment and operating surpluses in 2003 and 2004 that are projected to be \$4.1 million better than anticipated.

The projected total property and equipment balance at the end of 2004 is \$175.1 million, an expected \$33.0 million below the budgeted level. This variance is due to 2004 capital spending that is projected to be \$32.6 million below budget and amortization that is projected to be \$0.4 million above budget.

Total long-term debt is projected to be \$203.2 million at the end of 2004. This represents a balance that is projected to be lower than the budgeted level by \$50.0 million resulting from \$50.0 million of unplanned debt repayment in 2004.

Accumulated market-related sanctions and voluntary payments total \$2.2 million. The current estimate is that \$0.2 million of the funding will be expended in 2004, with \$2.0 million spent in 2005. Since the IMO Board of Directors only approved the accumulated fines and penalties total to the end of 2003 for this use, the anticipated monies of \$0.1 million generated in 2004 are expected to remain over the planning period. No approvals are required or requested from the OEB with respect to these funds.

Financial Outlook 2005-2007

The financial outlook for the IMO for the planning period 2005 – 2007 reflects the IMO's continued commitment to prudent financial and cost management. As a result, the IMO does not envision within the planning horizon an increase to the current usage fee of \$0.959/MWh, a fee level that has remained unchanged since 2002.

The IMO's focus on prudent fiscal management is consistent with the commitment made in the 2004 – 2006 Business Plan. In last year's plan, the IMO anticipated the usage fee level remaining constant through to 2006, a goal that remains unchanged. The method of achieving this goal, however, is more aggressive in the current year's plan without unduly exposing the company to unacceptable risks. In last year's plan, the IMO proposed to apply the projected year-end 2003 accumulated surplus of \$11.5 million to offset the annual anticipated operating deficits that were budgeted in each of 2004, 2005, and 2006, maintaining the fee at \$0.959/MWh.

At the time, the IMO made it clear that it remained committed to fiscal prudence and that it would take all reasonable actions to eliminate any planned operating deficits. In this year's plan submission, the IMO anticipates the achievement of that goal for 2004, 2005 and 2006. In fact, it is anticipating a modest operating surplus of \$1.6 million for the period 2004 to 2006 inclusive, representing an improvement of some \$13.1 million from last year's plan. The current forecasts result in an accumulated surplus of \$15.0 million at the end of 2006. With the forecasted implementation of the Day-Ahead Market late in 2006 and the resultant full year of amortization being reflected in 2007, about one-quarter of this accumulated surplus is anticipated to be utilized in 2007 to fund a forecasted deficit of approximately \$3.9 million and maintain the usage fee at \$0.959/MWh. It is worth noting that although no formal planning of 2008 has been undertaken, amortization, and therefore total costs, is expected to drop back down as the major systems associated with the opening of the market will have been fully amortized.

The following table summarizes the cumulative operating results for the three year period ending 2006.

(\$ millions)	2005-2007 Business Plan	2004-2006 Business Plan	Change
Usage Fees	451.2	449.3	1.9
Market-related Interest Income	6.0	15.3	(9.3)
Cost Recovery for Services	4.6	3.0	1.6
Total Revenues	461.8	467.6	(5.8)
OM&A Program Costs	251.8	256.1	4.3
OM&A Pension Expense	24.5	29.4	4.9
Market Evolution Program	4.5	1.7	(2.8)
Amortization	153.3	159.5	6.2
Interest	26.1	32.4	6.3
Total Costs	460.2	479.1	18.9
Operating Surplus/(Deficit)	1.6	(11.5)	13.1

As outlined in the table above, when compared to last year's plan, these current forecasts reflect a reduction of \$18.9 million in total costs for the period 2004 to 2006, more than offsetting the significant impairment to the business caused by the reduction in plan revenues of \$5.8 million over that same period. These planned forecasts, reflecting fiscal prudence and conservatism, anticipate that the IMO will have an accumulated surplus of \$11.1 million at the end of 2007 and demonstrate that the organization can confidently expect to maintain the current usage fee of \$0.959/MWh through to 2007.

Notwithstanding that these anticipated results over the plan period demonstrate fiscal constraint, there remain uncertainties that could significantly alter these projections. Two of the larger uncertainties are:

- The effect on the IMO's revenues of a reduction in demand due to the success of demand-side management and conservation programs.
- The provisional nature of the overall costs for the implementation of the Day-Ahead Market

The IMO is wholly supportive of demand side management measures to address Ontario's supply needs and support greater reliability. Programs such as the Transitional Demand Response Program and the IMO's work to promote more dispatchable load underscore the importance of demand response in the market. Demand side efforts, however, will have an impact on IMO revenues and must be incorporated into revenue forecasts.

The forecasted AQEW (energy demand) levels that underpin the revenue forecast included in the plan are 155.8 TWh for 2005, 157.7 TWh for 2006 and 159.9 TWh for 2007.

If conservation and/or Demand Side Management (“DSM”) reduce the forecasted levels by two per cent annually¹, the impact would be a combined reduction in revenues of approximately \$17.9 million from 2005 through to 2007 inclusive. It is not possible to forecast with any degree of certainty, the impact of any DSM programs on reducing demand for energy in the province but it is important to recognize the potential effect on the IMO’s revenues of a reduction in demand that could result from these programs. The potential impact of DSM is higher in the later years of this plan.

On the capital costing side, this year’s plan submission utilizes a planning estimate of \$56.2 million in total capital costs for the implementation of a DAM, including \$2.3 million in 2004. As will be outlined in further detail later on in this document, finalized estimates for the DAM implementation costs are currently in development. If the actual costs prove to be at the upper end of IMO estimations, the impact on the IMO’s costs would be significant. Such an increase in capital cost would increase overall operating costs by \$10.5 million in 2006 and 2007 inclusive due to higher amortization costs, with most of the incremental costs being incurred in 2007, reflecting a full year of amortization costs.

In addition, there will continue to be developments within the energy sector as *Bill 100* is implemented although the impact that any of these changes could have on the IMO is uncertain at this time. In order to provide the necessary support to the government, the regulatory bodies and other industry stakeholders, and to ensure a highly successful transition to the government’s revised model for the sector, there may be incremental resources required by the IMO that cannot be accommodated in this Plan. If incremental resources are required, it is not expected that these resources would be an enduring requirement for the business. Nonetheless, there may be cost increases over the planning period as a result of any such support provided.

Although it is the view of the IMO that the usage fee would remain unchanged through to 2007, this Plan must recognize the potentially large uncertainties as outlined above and that could undermine this view. As a result, the IMO is requesting to continue to hold the accumulated surplus to address these, and other contingencies, over the planning period as they arise.

Key Assumptions over the Planning Period:

- Load forecasts utilized in calculating the usage fees over the plan horizon are based on the IMO’s most recent 18-month and 10-year forecasts².

¹ A 2 per cent annual reduction represents a reduction to the forecasted demand increase. For example, the current forecast has an increase of 1.2 per cent in 2006 – based on a 2 per cent reduction, there would not be an increase of 1.2 per cent rather, and there would be a decrease of 0.8%. Cumulatively, this would result in forecasts of 154.2 TWh in 2005, 154.6 TWh in 2006, and 155.2 TWh in 2007.

² The forecast utilized in the plan is that issued by the IMO in September 2004.

- The accumulated surplus at the end of 2004, anticipated to be \$14.1 million, is carried forward and will be utilized to address uncertainties over the planning period and to maintain a stable usage fee in 2007, as outlined above.
- The long-term debt repayable to the Province of Ontario in 2005 is renegotiated with similar terms to those that are currently in place (i.e. floating rate reset quarterly with repayment option.)
- The average annual floating interest rate paid on the long-term debt, excluding the fixed rate debt with the Ontario Electricity Financial Corporation, will be in the range of 3.6 per cent to 4.4 per cent over the planning period.
- \$25.0 million of debt will be repaid in 2006 with a further \$25.0 million repaid in 2007.
- Capital spending of \$56.7 million in 2005, \$31.2 million in 2006, and \$21.0 million in 2007, including \$37.0 million in 2005 and \$16.9 million in 2006 for the DAM.
- Adjustments to major market system service lives, consistent with the identified capital plan.
- Pension expense for 2005 based on actual pension plan returns to the end of July 2004 with the 2006 and 2007 pension expense based on plan returns of 7.25 per cent. This latter rate of return is consistent with the assumed expected long-term return on plan assets.

The table below outlines the planned operating results over the planning period:

(\$ millions)	2002 Actual	2003 Actual	2004 Projected	2005 Budget	2006 Plan	2007 Plan
Usage Fees	146.7	148.9	150.6	149.4	151.2	153.3
Market-related Interest Income	1.8	4.2	2.3	1.7	2.0	2.4
Cost Recovery for Services	0.9	0.9	1.2	1.7	1.7	1.7
Total Revenues	149.4	154.0	154.1	152.8	154.9	157.4
OM&A Program Costs	80.8	75.1	80.3	84.3	87.2	89.4
OM&A Pension Expense/(Income)	(0.2)	4.1	7.2	7.9	9.4	9.7
Market Evolution Program	-	3.1	3.8	0.6	0.1	-
Integration Management Program	2.0	-	-	-	-	-
Amortization	46.2	51.2	52.9	51.3	49.1	54.4
Interest	19.5	17.8	9.2	8.7	8.2	7.8
Total Costs	148.3	151.3	153.4	152.8	154.0	161.3
Operating Surplus/(Deficit)	1.1	2.7	0.7	-	0.9	(3.9)
Accumulated Surplus/(Deficit)	10.7	13.4	14.1	14.1	15.0	11.1

As depicted above, this Business Plan anticipates that the IMO will essentially break even in fiscal years 2005 and 2006 with a projected operating deficit in 2007 of approximately \$3.9 million. The Business Plan proposes to utilize the current accumulated surplus to fund the deficit in 2007 and to allow for significant contingencies over the three-year planning period. Complete financial statements covering the period 2002 through 2007 are included as Appendix 1.

Total Revenues: 2005-2007

Total revenues are projected to decrease by approximately \$1.3 million in 2005 from levels expected in 2004, due primarily to reductions in usage fee revenue.

Usage fee revenue is forecasted to decrease by \$1.2 million in 2005 from the current year, with increases of \$1.8 million and \$2.1 million in each of 2006 and 2007, respectively. The forecasted reduction is reflective of primary demand increases being more than offset by reduced export levels as the projected export levels in 2004 are higher than in recent years. These revenue levels reflect the following energy forecasts: 155.8 TWh in 2005, 157.7 TWh in 2006 and 159.9 TWh in 2007. As stated previously, these forecasted energy levels are based on the most recent 18-month and ten-year forecasts issued by the IMO and do not explicitly reflect any impact of demand-side management initiatives that might materialize over the planning period.

Market-related interest income revenues³, which represent investment income earned on market funds as they flow through the settlement cycle, are expected to decrease by \$0.6 million in 2005. This reduction is expected to largely result from the elimination of the BPPR. Since market opening, the IMO has earned interest income on these funds as they flowed through the settlement cycle. The elimination of this interest income represents a significant change from last year's business plan. In that plan, \$2.8 million of interest income was anticipated for each of the plan years. In 2004, \$0.4 million of the projected market-related interest income relates to BPPR funds. Therefore, when compared to last year's plan, this Business Plan has absorbed a resulting reduction of \$8.0 million in revenues over the period of 2004 to 2006 in relation to this item.

Cost recovery for services revenues, which are derived from connection assessments and participant training, are expected to increase in 2005 by \$0.5 million and remain flat at \$1.7 million over the remainder of the planning period. This change is anticipated to result from an increased volume of connection assessments, due to the need for investment in new or replacement sector infrastructure. Since these revenues represent services that the IMO provides at cost, there are corresponding increases within the OM&A program costs for the provision of this increased level of services. Accordingly,

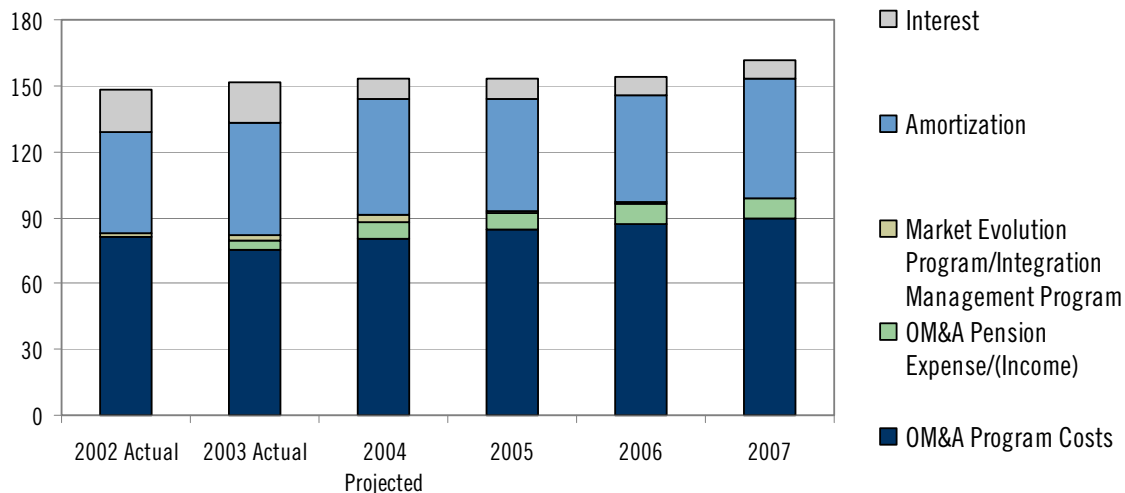
³ Market-related interest income was formerly entitled 'settlement clearing account' in previous business plans.

there is no net impact on the IMO for these services and no impact on the usage fee charged to market participants.

Total Costs: 2005-2007

Over the three-year planning period, total annual costs are expected to increase by approximately \$7.9 million, or five per cent, over the anticipated 2004 levels. On an annual basis, in 2005, the total costs of the business are budgeted to effectively remain unchanged, with a slight decrease of \$0.6 million. In 2006, total costs are forecasted to increase by \$1.2 million. Therefore, over the first two years of the planning period, total annual costs are forecasted to remain at levels only \$0.6 million higher than 2004, or essentially unchanged. In 2007, total costs are forecasted to increase by about \$7.3 million (five per cent) versus 2006. This planned increase is due primarily to a full year of DAM related amortization along with some inflationary cost increases. The details of each of these items will be further explained below.

The following chart more easily demonstrates IMO total costs over the period 2002–2007:



The net increases over the planning period reflect the following:

- An increase in regular staff levels, with more than half of the staff increase planned to perform connection assessments, an area in which the costs are recovered from outside of the usage fee (i.e. cost recovery for services.)
- Inflationary pressures on OM&A program costs, primarily related to external computer maintenance and support costs.
- Continued increase in pension expense.

- Capital expenditures being placed in-service, including the Day-Ahead Market, resulting in increased amortization.
- Repayment of debt, resulting in reduced interest costs over the plan period.

The following sections provide the detail and rationale for the changes in each cost category.

OM&A Program Costs

The following table outlines the OM&A program costs over the planning period.

(\$ million)	2002 Actual	2003 Actual	2004 Proj.	2005 Budget	2006 Plan	2007 Plan
Staff Costs	\$49.5	\$49.9	\$52.1	\$55.1	\$57.2	\$58.8
Computer Support, Maintenance & Equipment	12.5	10.9	11.9	12.8	13.4	13.7
Consultants & Contract Services	6.7	5.8	7.7	7.2	7.2	7.2
Administration	4.7	5.6	5.7	6.1	6.0	6.1
Telecommunications	7.4	2.9	2.9	3.1	3.4	3.6
OM&A Program Costs	\$80.8	\$75.1	\$80.3	\$84.3	\$87.2	\$89.4

In 2005, OM&A program costs are budgeted to increase by approximately \$4.0 million from the prior year, or just less than five per cent. As evidenced above, the primary reason for this increase relates to an increase in staff costs.

Staff Costs

The IMO continues to be a business that is capital and staff intensive in nature. Specific to staffing, over the planning period staff costs represent over thirty-five percent of the total costs and over sixty-five percent of the total OM&A program costs, excluding OM&A pension expense, which although categorized separately nonetheless relate to regular staff. Factoring in the pension expense, staff-related costs account for at least forty per cent of total costs in each year of the planning period.

Specifically, in 2005, staff costs are budgeted to increase by about \$3.0 million, or about six per cent over the prior year. This planned cost increase is a result of:

- An increased regular staff complement of seven.

- Having a full staff complement in place for the entire year. In 2004, the IMO carried vacancies for portions of the year, resulting in less than necessary staff levels to adequately support both daily operations and capital initiatives; and
- Compensation increases primarily the result of current collective agreements.

The following table outlines the budgeted staff levels over the planning period:

	2004 Actual ⁴	2005 Budget	2006 Plan	2007 Plan
Market Operations & Forecasts	139	151	151	151
Information, Technology & Infrastructure	119	121	116	116
Market Services	80	87	78	78
Corporate & Legal Affairs	30	33	31	31
Finance	21	21	22	22
Market Assessment & Compliance	14	15	14	14
Human Resources	13	14	13	13
Internal Audit	4	5	5	5
Chief Executive Officer	2	2	2	2
	422	449	432	432

As outlined above, this plan has total (combined regular and temporary) staff levels increasing in 2005 to 449 from the current level of 422 staff. Of the net staff increase of twenty-seven, twelve represent staff being brought in temporarily to provide support for capital projects either via direct support or the releasing of regular staff. The remaining increase of fifteen staff reflect the filling of three recent vacancies and an increased level of staff to perform connection assessments (seven) as well as an ongoing need for Market Operations and Forecasts staff to support capital projects (five.)

Despite a proposed overall increase in the staff complement of the IMO, much work has been performed and is expected to continue to be performed over the planning period to reallocate staff, improve efficiencies, and eliminate low-value work to ensure staff are focusing on the areas of the business that introduce the largest degree of risk in meeting corporate objectives. Examples of increased workload accommodated or to be accommodated through efficiencies and reprioritization include: system reliability work resulting from the 2003 blackout; activities related to Operating System Limits, and work in relation to the large volume of revenue meter replacement expected over the planning period.

⁴ As at September 1, 2004

Specific to the planned staff levels, as can be seen from the above chart, the longer term required staff increases are in the area of MOF.

In its key role to ensure the safe and reliable management of the province's electricity system, the IMO will work to reliably incorporate the substantial changes to Ontario's supply and delivery infrastructure needed during the planning period and beyond. Assessments of reliability impacts are needed to define connection requirements and network impacts, as well as system analysis to develop new system transfer capabilities within and beyond Ontario. Outages to the existing system will have to be managed to incorporate new facilities. New operating instructions will be needed, new technologies will need to be modeled and their operational implications understood. And finally, new reliability services contracts must be negotiated.

The increased intensity in the system capability and assessments areas will be met in part by reallocating staff from contracting, emergency preparation, and administration areas. The greatest incremental area of impact is in the performance of the connection assessments.

To date, the IMO has supported the government's recent Request For Proposal initiatives by temporarily assigning eight additional employees to the Connection Assessment and Approval ("CAA") process. This increased workload is expected to endure through the planning period and likely to increase.

The IMO has and will continue to support market participants who use consultants to perform their connection assessment studies. Even if external consultants perform the connection assessment, there is, a significant role that will continue to be performed by the IMO to manage and execute the CAA process. This includes defining study requirements, providing system models and technical support to consultants, verifying consultant study results, determining required system upgrades, preparing reports, and supporting regulatory processes.

Since the current temporary reallocation of staff to perform CAA work is not sustainable, MOF estimates that up to seven additional staff are required to support the expected level of new connection proposals over the planning period. While these resources will increase the OM&A program costs, they will also increase the cost recovery for services revenues, resulting in no impact on the usage fee. The assessments developed through this process together with other realignments of the forecast and assessment process should support and complement the planning accountabilities of the Ontario Power Authority.

As with all areas of the business, supporting future market developments such as the DAM will require the involvement of MOF staff in both the design and implementation stages. Even without DAM, there is a significant ongoing capital program necessary to

replace and enhance existing tools. As a result, the business plan identifies the need for five regular MOF staff to be assigned to capital work. The IMO recognizes the importance of dedicating full-time regular employees with the necessary experience and knowledge to capital projects.

The increase in regular staff levels to perform capital work will not change the expected OM&A costs for the IMO since assignments to capital work are planned to be backfilled thus replacing the diverted OM&A resources. Once the Day-Ahead Market is developed, additional staff will be required to operate it on a seven-day a week basis. This incremental requirement will be met through efficiencies gained by re-aligning existing processes and by challenging existing IMO obligations that do not add substantial value to market participants.

The utilization of regular staff to perform capital work within MOF is reflective of the challenges they have faced in the past when trying to hire the required skill set on a temporary basis. Also, bringing in and training regular staff is consistent with the need for significant staff replacement over the coming years due to expected attrition.

Looking across the entire business, total staff levels by the end of 2006 are then expected to decrease by 17 from the levels experienced in the prior year and remain at that level. This reflects the net effect of 17 temporary staff departing the business as DAM is completed.

There are currently no staffing level changes planned for 2007. It is anticipated that the total staff complement will remain at the 2006 levels.

Computer Support, Maintenance & Equipment

Computer support, maintenance and equipment costs are budgeted to increase by \$0.9 million in 2005 over the prior year. There are two primary drivers for this increase: inflationary pressures on support and maintenance services; and an ongoing increase in the size and scope of the IMO's market systems. In the past, increased costs necessary to support a growing technical infrastructure and market system construct have been accommodated within other components of the computer support, maintenance, and equipment budget. However, costs savings are becoming increasingly difficult to identify within this area of business.

In 2006 and 2007, these costs are budgeted to increase at levels largely consistent with inflation.

Consultants and Contract Services

Consultants and contract services are budgeted to decrease by approximately \$0.5 million in 2005 from the prior year. This decrease reflects the elimination of costs associated with the Market Surveillance Panel, reduced Board of Director costs as a result of the restructuring of the IMO's governance structure and is partially offset by anticipated increases in insurance premiums.

Administration

Administrative costs are budgeted to increase in 2005 by \$0.4M, or seven per cent over what is anticipated in 2004. This increase is largely due to required major repairs on the system control centre facility and duplicate lease costs for a period of three months related to relocation of our back-up operating centre. Administrative costs are forecasted to remain constant in 2006 with contracted lease cost increases at our downtown office location offsetting the absence of roof repair costs, and then remain unchanged again in 2007. Administration includes memberships in the Northeast Power Coordinating Council, rent, utilities, materials and supplies, rental facilities, building services, and property taxes.

Telecommunications

Telecommunication costs are budgeted to increase by approximately \$0.2 million in 2005 over 2004. This cost increase is expected to result from an increase in the number of market participant remote terminal units. Although participants pay for the units and their installation, the IMO is responsible to pay the associated telecommunication costs for the data transmitted to the system control centre. The increases in 2006 and 2007 reflect anticipated inflationary increases and further remote terminal unit (RTU) expansion. Although telecommunication costs are increasing over the planning period, the budgeted cost of \$3.6 million in 2007 is still less than half of what the IMO paid for telecommunication services in 2000.

OM&A Program Costs by Business Unit

OM&A program costs have been analyzed above by cost type, explaining the associated work. To also outline the budgeted changes in OM&A program costs over the planning period, business unit budgets are included in Appendix 2.

OM&A Pension Expense

(millions)	2002 Actual	2003 Actual	2004 Projected	2005 Budget	2006 Plan	2007 Plan
Pension Expense/(Income)	(\$0.2)	\$4.1	\$7.2	\$7.9	\$9.4	\$9.7

As a result of many factors, pension expense continues to increase over the planning period. The factors include reductions in the discount rate (tied to long term corporate bond rates) and prior year plan returns that are at lower than planned levels due to poor equity returns resulting in experience losses of prior years being recognized over the planning period. In 2005, the total pension cost is anticipated to be \$8.3 million. Of the \$8.3 million, the portion charged to current operations is \$7.9 million since pension costs are included in the labour burden and a portion will therefore be capitalized when appropriate.

Pension expense charged to operations is anticipated to increase to \$9.4 million in 2006 and to \$9.7 million in 2007. The increase of this expense from the 2004 amount of \$7.2 million is consistent with last year's business plan. However, actual returns on pension plan assets in 2003 were higher than the assumed long-term rate of return, which, when combined with a slight increase in the discount rate, reduced the 2005 expense level from the \$9.9 million identified in last year's plan. The impact of this, from an accounting perspective, is that a component of cost within the business has gone from a revenue item of \$0.2 million in 2002 to an expense item of \$9.7 million in 2007 – a swing of almost \$10.0 million in five years. From a usage fee perspective, pension costs essentially represented none of the \$0.959/MWh fee charged in 2002. In 2005, this cost is estimated to represent over five per cent, increasing to over six per cent by 2007.

The components that comprise the pension expense over the planning period, along with underpinning assumptions, are included in Appendix 3.

This situation is not unique to the IMO as virtually all corporations are experiencing similar results. Even when equity market returns increased significantly in 2003, the positive effect on pension expense was eliminated due to a continued decline in the discount rate. Recognizing the importance of the pension plan to current and former employees and to help ensure the long-term viability of the pension plan, the IMO made a \$5.0 million contribution to the registered pension plan in 2004. In addition, the IMO is planning on making cash contributions of \$6.3 million in 2005, \$6.7 million in 2006, and \$7.0 million in 2007. These estimated contribution levels reflect the current estimated service cost estimates for the registered pension plan and will be affected by actual plan returns, discount rate changes, and the results of the statutorily required pension plan valuation that will be completed in 2005.

Market Evolution Program

The Market Evolution Program (“MEP”), a program that was identified in previous year’s business plan and has been discussed with participants at various forums, continues to move forward in 2005.

As outlined in previous Plans, the MEP was developed by the IMO in recognition of the need to evolve Ontario markets – a need endorsed by stakeholders and the Market Surveillance Panel.

The MEP continues to be critical in the evolution of the IMO-Administered Markets, in a manner consistent with the sector model encompassed in *Bill 100*. A particular focus is being brought to integrating the consideration of the various MEP elements, which include the following:

- Day-Ahead Market
- Better Optimization Over Time (Multi-interval Optimization)
- Long-term Resource Adequacy
- Short-term Resource Adequacy
- Market Pricing Issues

Other elements of the MEP that have had a lower priority in light of government initiatives include wholesale/retail market structure and environmental information tracking.

The following table outlines the total costs from 2003 through 2007 associated with each element or component of MEP⁵.

MEP Initiatives (millions)	OM&A	Capital	Total
Day-Ahead Market	\$4.8	\$56.2	\$61.0
Multi-interval Optimization	0.1	2.4	2.5
Long-term Resource Adequacy	0.9	0.8	1.7
Market Pricing Issues	0.3	-	0.3
Short-term Resource Adequacy	0.2	-	0.2
Wholesale/Retail Market Structure	0.1	-	0.1
Environmental Information Tracking	0.1	-	0.1
Stakeholdering	0.1	-	0.1
Program Management	1.0	0.8	1.8
	\$7.6	\$60.2	\$67.8

The following section provides an overview of the components within MEP and the associated benefits of each:

⁵ The total costs include the actual costs for 2003, projected costs for 2004 and budgeted costs for 2005 and 2006.

Day-Ahead Market

The Day-Ahead Market is intended to complement the existing Real Time Market by providing a market whereby the commitments to buy and sell electricity are established a day ahead of time and a corresponding uniform day ahead market clearing price is established. It is expected that the Day-Ahead Market will be the primary market for electricity in Ontario and the existing Real Time Market will become a balancing market to deal with differences between day ahead and day-at-hand conditions.

The benefits of the Day-Ahead Market include:

- Improved forward price index for electricity which is less volatile and more transparent.
- Enhanced opportunities for price-sensitive, non-dispatchable loads to participate in IMO-administered markets.
- Enhanced opportunities for price-sensitive suppliers to participate in IMO-administered markets.
- Greater operational certainty ahead of real-time operations for suppliers and consumers.
- Improved opportunities for demand side management with corresponding improvement for resource adequacy.
- Improved trade with neighbouring jurisdictions.

Reference material related to the DAM can be located on the IMO's web site, including the Day-Ahead Market High Level Design Strawman located at: http://www.theimo.com/imoweb/pubs/consult/mep/DAM_WG_Strawman-4_0.pdf

From a costing perspective, in the 2004-2006 Business Plan, the IMO estimated a capital cost of \$35.0 million for DAM, representing the best estimate at the time, when there was no indication as to what form the DAM might assume.

Since that time, the IMO, in conjunction with stakeholders, has further developed the scope and design of the proposed DAM in Ontario. Also, the IMO has undertaken activities to better estimate the implementation costs of DAM. That work led to a cost estimate range of \$39.0 million to \$82.0 million for the final phase of DAM (including both capital and OM&A costs). The range is so broad due to the fact that the largest components of the project's cost lie in the systems required to administer the market. IMO management believes that until firm bids to develop the systems are obtained from suppliers, it would be imprudent to present figures other than those ranges.

However, in an effort to narrow the range of cost estimate, further work was undertaken. Specifically, budgetary estimates were obtained for key systems from potential vendors and estimated or actual costs were obtained from other ISOs that are implementing or have implemented a DAM. Unfortunately, despite the additional work, it was not possible to increase the certainty of the estimates. Since the additional

information did not add any value to the estimated cost range, IMO management continues to utilize the initial estimated range of costs. This range of estimates is under continuing scrutiny by IMO management, and accordingly, could be subject to change.

For planning purposes, the IMO is utilizing an estimate of \$54.0 million for the final phase of DAM (\$53.4 million capital and \$0.6 million OM&A). Therefore, as discussed previously in this Plan, the high-end of the range estimate is \$28.0 million higher than the figured used as a planning assumption. To date, the IMO Board of Directors has approved the first four phases of the DAM project, totaling \$7.0 million (\$4.2 million OM&A and \$2.8 million in capital funding). Based on current estimated timelines, firm bids from suppliers would be received in early 2005 and IMO management would seek approval for the funding associated with the final phase of DAM from the IMO Board of Directors shortly thereafter.

Resource Adequacy Market (Long-term Resource Adequacy):

The Resource Adequacy Market (RAM) is intended to provide an explicit market mechanism to ensure that adequate resources are available in the future to meet forecasted electricity demand in the province. The RAM will encourage the development of generating resources and demand management initiatives and will lessen the province's dependence on long term contracts with suppliers to meet future energy requirements.

The benefits of the RAM include:

- Enhanced power system reliability by ensuring that adequate resources are available to meet forecast demand throughout the province.
- Provision of market signals to potential energy suppliers to encourage investment in new generation or improvements to existing generation assets.
- Provision of a guarantee of future cash flows which can be used by energy suppliers to obtain financing for investment.

Related reference materials are located on the IMO's web site, including the Strawman of Long-Term Resource Adequacy located at:

http://www.theimo.com/imoweb/pubs/consult/mep/LTRA_WG_Strawman_2003Dec05.pdf

Multi-Interval Optimization:

The Multi-Interval Optimization project was placed in service in June, 2004. The objective of this project was to improve the real time market dispatch algorithm by anticipating the dispatch of resources in future intervals so that a more optimal dispatch can be provided for each resource.

The benefits of the Multi-Interval Optimization project include:

- Improved dispatch compliance.
- Improved market transparency through reduced intervention in the dispatch.
- Improved dispatch, including better recognition of unit ramping capability.

Related reference materials include - Quick Take – Multi Interval Optimization – Initial Phase, located on the IMO's website at:

http://www.theimo.com/imoweb/pubs/training/QT13_Multi-IntervalOptimization_Phase1.pdf

Market Pricing:

This project is tasked to address the issues that exist in the current Real Time Market. The initial phase of the project established a Pricing Issues Working Group comprised of volunteers from the Market Participant community. This working group is currently developing a complete and up-to-date documented inventory of existing issues. Future work and resolution of the identified issues will proceed on the basis of ongoing assessment and prioritization of the issues.

Related reference materials can be located on the IMO's website at:

http://www.theimo.com/imoweb/consult/mep_mp_ref.asp#PT

Short Term Resource Adequacy:

This project represents the development and implementation of the Hour Ahead Dispatchable Load (HADL) program. This program provided the opportunity for loads to offer to reduce their consumption by a specified amount at a corresponding offer price.

The primary benefit of this program is that it provides a simple mechanism for loads to respond to high demand situations and be compensated on the same basis as domestic market participants or imports.

Amortization

(millions)	2002 Actual	2003 Actual	2004 Projected	2005 Budget	2006 Plan	2007 Plan
Amortization	\$46.2	\$51.2	\$52.9	\$51.3	\$49.1	\$54.4

Over the planning period, amortization expense is anticipated to increase by \$1.5 million, from \$52.9 million in 2004 to \$54.4 million in 2007 reflecting the IMO's capital plans over that period. There is no significant change in forecasted amortization costs until 2007 when amortization costs associated with the introduction of the DAM are incurred for a full fiscal year. Further explanation on amortization costs over the planning period immediately follows the discussion on capital spending.

Capital Spending

Over the planning period, the intent is to make business and tool improvements that are currently estimated to cost \$56.7 million in 2005, \$31.2 million in 2006, and \$21.0 million in 2007. This total three-year spending level of \$108.9 million, which includes spending for the DAM, is considerably higher than the actual and projected spending level of \$67.5 million for the three year period ending in 2004.

Given the ongoing need for changes and reprioritization, the IMO does not utilize the business planning process as a mechanism for capital project approval. Rather, through business planning an appropriate capital envelope for future years is established. This does not represent a change from prior years. However, the IMO has recognized the need for increased disclosure and information in terms of project-specific capital plans within the business plan.

As such, the following table provides more information on the IMO's capital plan.

(millions)	2002 Actual	2003 Actual	2004 Proj.	2005 Budget	2006 Plan	2007 Plan
Day-Ahead Market			\$2.3	\$37.0	\$16.9	-
System Improvements and Software Upgrades			6.7	9.6	9.2	10.1
IT Infrastructure			5.3	9.8	4.9	2.0
Other Capital			0.5	0.3	0.2	8.9
Total Capital	\$39.7	\$13.0	\$14.8	\$56.7	\$31.2	\$21.0

The planned capital spending level of \$56.7 million in 2005 represents a \$41.9 million increase from the 2004 projected level of \$14.8 million. As depicted above, the DAM represents \$34.7 million, or over eighty per cent, of the increase with the remainder of the increase occurring in the areas of IT Infrastructure and System Improvements. The following sections outline the various components of the capital program over the planning period.

Day-Ahead Market

The project that would deliver a Day-Ahead Market to Ontario is a large initiative that began in 2003. The details on this were included in the section 'Market Evolution Program' earlier in this Plan.

The Day-Ahead Market is tentatively scheduled for implementation at the end of the third quarter in 2006. Based on the current schedule, substantial completion would be achieved by the end of June 2006, therefore, amortization was commenced July 1, 2006 for planning purposes.

System Improvements and Software Upgrades

System improvements and software upgrades represent both functional improvement to existing systems (e.g. Energy Management System) and upgrades to systems/software. Since most of the IMO's systems were developed and deployed prior to 2002, large portions of the existing systems are planned for upgrade or replacement over the planning period. Current applications require upgrading or replacement to allow for continued functioning with new hardware and to allow for continued support from vendors. In 2004, \$6.7 million is projected to be spent in this area. The single largest project within this area is the implementation of Multi-interval Optimization (MIO), which represents \$1.4 million of the 2004 costs. The overall MIO project had a total capital cost of \$2.4 million and the project details have been outlined earlier in this Plan within the 'Market Evolution Program' section. In 2005, capital spending on system improvements and software upgrades is expected to increase to \$9.6 million, with spending levels in 2006 and 2007 at similar levels. The identified projects are included in Appendix 4.

IT Infrastructure

IT Infrastructure represents capital initiatives directed at maintaining and, as necessary, enhancing the overall technology backbone of the IMO. In 2004, the projected level of spending in this area totals \$5.3 million. This spending level increases to \$9.8 million in 2005 before declining in future years. Similar to most systems within the IMO, most of the IT infrastructure has been in service for a number of years, in many instances dating back to 2001 or earlier. Therefore, consistent with the need identified in last year's business plan, investment in the IMO's infrastructure is necessary to reasonably ensure the information backbone of the IMO remains effective, reliable, and efficient. The identified projects are included in Appendix 4.

Other Capital

Other capital projects represent physical infrastructure activities, such as improved security. An overall contingency for yet-to-be identified projects of \$8.8 million is included in the 2007 budget.

These detailed capital plans, included those in Appendix 4, represent the best current view of the IMO. Throughout the planning period, based on shifting priorities, opportunities, and challenges, the actual plan executed may differ from that outlined in this plan. Within the IMO, all capital projects require Business Unit Leader, President and CEO, or Board of Directors approval as appropriate prior to initiation⁶.

Based on this capital plan, for appropriate consistency, some asset service lives have been adjusted downwards. These revised estimates relate to major market systems,

⁶ Business Unit Leaders can approve capital projects up to \$200 thousand, President & CEO can approve capital projects up to \$4 million, and the Board of Directors approves all capital projects in excess of \$4 million.

including their sub-components, and result in the following estimated changes to amortization over the planning period: 2004 projected amortization increases by \$2.6 million, 2005 amortization increases by \$2.6 million, 2006 amortization decreases by \$0.8 million, and 2007 amortization decreases by \$1.5 million. Although outside of the planning period discussed in this plan these changes result in the following estimated changes to amortization beyond the planning period: 2008 amortization increases by \$2.0 million, 2009 amortization decreases by \$4.0 million, and 2010 amortization decreases by \$0.9 million.

Amortization Expense over the Planning Period

The following table outlines the details of the amortization expense over the planning period:

(million)	2004 Projected	2005 Budget	2006 Plan	2007 Plan
On Existing Assets In-service at the end of 2004	\$52.9	\$45.8	\$31.9	\$28.3
On New Capital		5.5	10.2	\$12.1
On Day-Ahead Market		-	7.0	\$14.0
Total Amortization	\$52.9	\$51.3	\$49.1	\$54.4

Interest Expense

The interest expense over the planning period is largely based on the following financing strategy.

Financing Strategy

The unsecured long-term debt of the IMO is comprised of the following notes payable:

- \$125.0 million held by the Province of Ontario, repayable on March 31, 2005, bearing a floating rate of interest of Bankers Acceptance rate plus fifty basis points, reset quarterly.
- \$78.2 million held by Ontario Electricity Financial Corporation ("OEF"), repayable on May 1, 2009, bearing a fixed interest rate of 7.9 per cent.

The debt with OEF is expected to remain in effect for the duration of the planning period and will result in \$6.2 million of interest annually.

As anticipated in last year's plan, the IMO repaid \$100.0 million of the original loan from the Province of Ontario. This amount was repaid on November 3, 2003, the date at which the IMO exercised the extension option contained within the original \$275.0 million loan agreement with the Province of Ontario.

In addition, the IMO repaid \$50.0 million of the Province of Ontario debt in 2004.

In last year's business plan, the IMO identified its intention to obtain a credit rating in 2004 in preparation for the refinancing of the Province of Ontario debt in 2005. Based on the preliminary discussions with the Province of Ontario, and the forecasted costs associated with obtaining and maintaining a credit rating, the IMO does not intend to obtain a credit rating in order to refinance the debt with the Province of Ontario. Rather, the IMO plans to renegotiate the existing loan agreement with the Province of Ontario. It is anticipated that the terms of a renegotiated debt agreement would remain unchanged from the current terms – a floating rate of interest of Bankers Acceptance plus fifty basis points, reset quarterly.

Over the planning period, the following are the assumed average interest rates on this debt for each year over the planning period:

- 2005: 3.6%
- 2006: 3.8%
- 2007: 4.4%

In addition, based on budgeted cash flows, the IMO anticipates sufficient cash to facilitate repayment of \$25.0 million of the Province of Ontario debt in each of 2006 and 2007.

Over the planning period, due to those uncertainties outlined in this Plan, the IMO has been conservative in its estimate of cash available for debt repayment. In essence, within this Plan, the IMO has planned cash balances over the planning period to be maintained at a level of approximately \$50.0 million. Certainly, over the planning period, the planned timing of debt repayment will be under constant review to ensure excess cash balances are not carried in the business. The current terms with the Province of Ontario allow for repayment of debt on a quarterly basis, allowing considerable financial flexibility for the IMO. This Plan assumes that \$25.0 million of the Province of Ontario debt will be repaid in each of 2006 and 2007.

Interest Expense over the Planning Period

The financing strategy above outlines the plan to continue to reduce the IMO's long-term debt over the planning period. The resulting interest costs, which accordingly reduce over the planning period, are estimated as follows:

- \$10.7 million in 2005;
- \$10.5 million in 2006; and
- \$9.5 million in 2007.

These interest costs will be partially offset by investment income earned on cash held by the business. The assumed average rates of return on investments are 2.7 per cent in 2005, 3.3 per cent in 2006 and 3.9 per cent in 2007.

The resulting expected investment incomes are:

- \$1.1 million in 2005.
- \$1.1 million in 2006.
- \$1.4 million in 2007.

The IMO also maintains two separate lines of credit: \$20.0 million of corporate contingency needs; and \$100.0 million for market settlement needs. The costs of these lines of credits, aside from any interest on drawn amounts, are a ten basis point stamping fee and a ten basis point standby charge. In total, this represents an annual cost of \$0.2 million in each of the planning years.

Lastly, for large and enduring projects, the IMO capitalizes interest on funds expended prior to the project being placed in-service. Over the planning period, these large projects would include the Day-Ahead Market and the Energy Management System/Market Information System Upgrade.

The resulting capitalized interest is:

- \$1.1 million in 2005.
- \$1.4 million in 2006.
- \$0.5 million in 2007.

Interest Expense over the Planning Period

The following table outlines resulting net interest expense over the planning period:

(million)	2002 Actual	2003 Actual	2004 Proj.	2005	2006	2007
Interest on Long-term Debt	\$23.4	\$21.5	\$10.0	\$10.7	\$10.5	\$9.5
Investment Income	(3.0)	(3.6)	(1.0)	(1.1)	(1.1)	(1.4)
Financing Charges	0.1	0.3	.3	0.2	0.2	0.2
Capitalized Interest	(1.0)	(0.4)	(0.1)	(1.1)	(1.4)	(0.5)
Interest Expense	\$19.5	\$17.8	\$9.2	\$8.7	\$8.2	\$7.8

As depicted in the above table, due to debt repayment and reduced interest rates, the overall interest expense is projected to have been reduced by \$10.3 million, or over 50 per cent, over the two years ended in 2004. Over the planning period, interest expense is budgeted to decrease by \$1.4 million, or 15 per cent, from 2004 to 2007. In total,

interest expense is anticipated to reduce by 60 per cent over the five-year period ending in 2007.

Looking Beyond 2007

As outlined previously in this plan, the IMO is anticipating an operating deficit of \$3.9 million in 2007, reflecting a large change from the forecasted operating surplus of \$0.9 million in 2006. Certainly, much will change between now and 2008, however, based on our current view, operating results in 2008 should improve from those of 2007 due to the completed replacement of most systems. Based on our current capital plan, including the preliminary estimated costs, amortization would be approximately \$47.4 million in 2008, assuming \$20.0 million in capital spending. This would represent a reduction of \$7.0 million in amortization in 2008. That would result in the IMO being able to break-even in 2008 at the usage fee level of \$0.959/MWh with reasonable allowances for inflationary cost increases.

The inclusion of this information is not meant to provide a tangible cost estimate for those years beyond 2007, rather it is meant to provide comfort that the operating deficit in 2007 does not represent the start of large usage fee increases.

Year 2005 Regulatory Approvals Requested

This section details the specific approvals requested from the OEB for the year 2005. The IMO is seeking the following approvals from the OEB:

- Approval to continue to charge in 2005 the same usage fee charged in 2002, 2003 and 2004, namely \$0.959/MWh to be paid commencing January 1, 2005 by all wholesale customers or market participants on all energy withdrawn for use or sale in Ontario and on all exports scheduled out of Ontario;
- Approval of its proposed 2005 revenue requirements of \$152.8 million;
- Approval of its proposed 2005 capital expenditures of \$56.7 million; and
- Approval for the continuation of the \$1,000.00 application fee.

The fees are set in the context of all revenue sources for the IMO, followed by detailed rationale, derivation and amounts.

Revenue Sources

There are several sources of revenue for 2005:

- Cost Recovery for Services.
- Market-related Interest Income.
- Revenue from IMO Fees.

Cost Recovery for Services

The IMO will continue in its plan to recover the cost of services that are directly attributed to a participant, such as training, assessments, and other services on a cost recovery basis. In aggregate, total revenues from cost recovery in 2005 is estimated at \$1.7 million.

Market-related Interest Income

As per the market rules, at the end of each year the monies in the IMO market settlement clearing bank account balance, which have been earned from interest on funds in this account, are applied to offset the IMO administration charge in the following year. This market-related interest income is projected to be \$1.7 million for the year 2005.

Revenue from IMO Fees

The IMO's fee methodology was approved by the OEB in 2000. The fee structure, which has been in effect since market opening, includes an application fee of \$1,000 per application plus a \$/MWh usage fee. While there will be revenues from new application fees as a result of the RFP process and market evolution initiatives, these revenues will be small in comparison to the usage fee revenues.

Deferral Account Balance

The deferral account balance (i.e. cumulative surplus) at the end of 2004 is projected to be \$14.1 million. No operating surplus or deficit is planned for 2005, with a \$0.9 million operating surplus budgeted for 2006, and a \$3.9 million operating deficit anticipated for 2007.

The cumulative surplus of the deferral account balance is proposed to remain with the IMO to address fiscal uncertainties outlined earlier in the Plan and to offset the operating deficit expected in 2007. Utilizing this approach, it would allow the IMO to support a fixed fee structure over the planning period whilst still recognizing the uncertainties over that same time horizon.

Usage Fee

The calculation of the IMO usage fee starts by calculating the revenues to be recovered from the fee as shown in the following table:

(millions)	2005 Budget	2006 Plan	2007 Plan
Revenue Requirements	152.8	154.0	161.3
Less: Other Revenues			
• Cost recovery for services	1.7	1.7	1.7
• Market-related Interest Income	1.7	2.0	2.4
• Deferral account balance allocation	-	(0.9)	3.9
Revenue Requirement to be recovered by IMO Usage Fee⁷	149.4	151.2	153.3

The second step is to estimate the charge determinant for the usage fee. It is the total AQEW (Allocated Quantity of Energy Withdrawn) for the year, including exports out of Ontario:

⁷ The revenue requirements to be recovered by the IMO usage fee assume that the deferral account is utilized to maintain a usage fee of \$0.959/MWh.

Year	18-Month & 10-Year Outlook Demand Forecast (TWh)	-	Transmission Line Losses (TWh)	+	Exports (TWh)	=	Forecast AQEW (TWh)
2005	154.9	-	4.6	+	5.5	=	155.8
2006	156.8	-	4.7	+	5.6	=	157.7
2007	158.9	-	4.8	+	5.8	=	159.9

The third step is the rate calculation:

Year	Revenue Requirement To Be Recovered (\$ million)	÷	Forecast AQEW (TWh)	=	Usage Fee (\$/MWh)
2005	149.4	÷	155.8	=	0.959
2006	151.2	÷	157.7	=	0.959
2007	153.3	÷	159.9	=	0.959

The usage fee level proposed is unchanged from the fee charged in 2004, 2003 and 2002.

Status of Prior Year's Settlement Agreement and Ontario Energy Board Rate Order Undertakings

Continued Consultation with the IMO Regulatory Standing Committee

In considering the IMO's application last year (RP-2003-0220), the Board stated in its Decision with Reasons (issued on December 19, 2003), that it takes comfort that such proposals are scrutinized with the broad range of stakeholders represented at the Regulatory Affairs Standing Committee (RASC).

These commitments included regular updates to the RASC on capital expenditures, the seeking of input from the members on performance measures and matters to be included in the annual customer survey and the sharing of results of cost comparisons with other ISOs. A series of meetings were scheduled with the Regulatory Affairs Standing Committee in 2004, specifically: March 25th, June 21st, September 9th, and October 1st focusing on the IMO's deliverables for these commitments. A summary of the topics covered follows:

IMO Corporate Performance Measures

The IMO agreed to discuss a number of performance measure issues at the Regulatory Affairs Standing Committee, including:

- Seeking input on the design of customer satisfaction surveys.
- Providing additional details and stakeholdering on the calculation of performance measures and criteria.
- Seeking ways for a more public disclosure of performance measure results.

At the June 21st RASC meeting, the IMO's Acting Director of Client Support presented proposed subject areas for the upcoming customer survey questionnaires, noting changes in either the level of questioning for current areas or alternatively, new areas of focus. Recommendations from stakeholders included increased emphasis on market evolution, conservation and demand management and market surveillance with decreased emphasis on the August 14th Blackout since this may no longer be a priority as this should already have been addressed by most participants. Suggestions were also made to consider the scope of the customer survey broadened to include the OEB and the Ministry of Energy.

Stakeholders also expressed the need for independence regarding the customer survey and maintained that the interviews and tabulation of results be conducted by an independent party.

At the same meeting, the IMO's Director of Business Development presented the IMO's performance metrics and indicated that the IMO continually tracks and posts the results

of the corporate performance measures on its public website. With respect to the performance metrics stakeholders provided the following feedback:

- Based on a concern about the number of "last minute" changes being introduced through the Market Change Management process, stakeholders suggested, that if feasible, a systematic recording of deviations may achieve the same purpose in lieu of a corporate performance measure;
- There would be no further value in adding a measure of forecast error to the current measure for demand forecast, since weather is an uncontrollable factor and the demand forecast would always result in error/bias.

This feedback was incorporated into the draft 2005 performance metrics discussed earlier in this Plan.

Capital Expenditures - Report Re-engineering

The IMO agreed to discuss market participant impact assessment with respect to the Report Re-Engineering capital expenditure at the IT Stakeholders Committee. In fulfillment of this undertaking, the IMO distributed to RASC members at the March 25th meeting, the minutes from the IT Stakeholder Committee (ITSC) that recorded that discussion.

At the request of the RASC members, the IMO also distributed at the June 21st meeting, the summary of the rationale and associated benefits for the Report Re-Engineering Program that was provided to the ITSC on May 18th and stakeholders agreed to consider this undertaking as complete.

Capital Expenditures - Day-Ahead Market

The IMO committed to provide quarterly updates to the Regulatory Affairs Standing Committee stakeholders on the spending for the DAM, once the capital funds were approved by the IMO Board of Directors.

The IMO's Corporate Controller provided quarterly updates of the IMO's financial results for the year 2004. In these updates, the IMO also provided details on DAM operating costs incurred to date and any further OM&A funding approved by the IMO Board of Directors.

The IMO also committed that it will report to the OEB and stakeholders if it expects that capital expenditures for the DAM in 2004 will exceed its Business Plan forecast by more than 20%. The capital forecast for 2004 capital costs associated with DAM are \$2.3M, significantly below the \$25.0M included in last year's plan. Therefore, it was not necessary for the IMO to report to the OEB and stakeholders on this matter.

Service Cost Unbundling and Comparisons with Other ISOs⁸

The IMO reaffirmed its commitment to continue to learn from comparable organizations and to seek fuller understanding of the unbundling experience of other ISOs. The RASC will continue to be a forum for sharing these results and holding related discussions.

As reported at certain of the RASC meetings, the IMO has taken the lead in the execution of a cost comparison initiative amongst the ISOs in Canada and the U.S. The following are the agreed upon goals of that initiative:

- To gain a better understanding of the costs and cost drivers of the various organizations within the ISO community.
- To improve the understanding of each other's operations, helping to better understand both the similarities and differences.
- To develop meaningful and relevant comparison information for use with stakeholders.
- To increase interaction amongst the ISOs within the Finance domain, particularly at the Controllership level.

This initiative began in late 2003 and work has progressed through 2004. Thus far, a great deal of work has been undertaken to: establish the approach to the study; identify and gather the required information; review the information for consistency; discuss the information including the underlying aspects of the various organizations to gain an understanding of the similarities and differences; and to try to clearly identify the underlying drivers of cost differences. As a condition of gaining the involvement of most organizations, there was a need to execute a confidentiality agreement. Therefore, the information provided by the various organizations can only be presented in a public manner with their expressed written consent. All participants clearly understand the desire for their respective organizations and stakeholders to see the results, however, they also recognize that the result of this initial study must be a useful document that presents a level of details and analyses not previously completed.

Since the report is in the very early stages of drafting, it is too early to be included in this Plan.

Consistent with the current status of the effort and agreed-upon target dates, it is expected that a report will be finalized by the end of 2004. At that time, the report would be issued publicly and the IMO would commit to present and discuss the report to the RASC shortly thereafter. Although this study is taking longer than anticipated, the IMO believes this work is valuable in establishing the groundwork that will lead to further cost comparisons that will continue to delve deeper into the various

⁸ For the purpose of this document, ISOs are meant to include independent system operators and regional transmission organizations (RTOs).

organizations and costs. As the ISOs have grown and become more complex, there has been a growing recognition within the ISO community that there are serious limits to the extent to which financial comparisons alone can provide meaningful information for comparability purposes. The final report will provide a more valuable analysis of performance data by providing contextual information that financial data alone does not provide.

Format and Content of the IMO Annual Filing with the OEB

One of the undertakings also required that the IMO file additional information in its next fees case, such as:

- Historical comparative financial information.
- Details of proposed capital expenditures.
- Compliance with prior Settlement Agreements.
- Report on stakeholdering activities.
- Explanations of current year priorities.

This undertaking has been fulfilled by ensuring that the additional information has been filed in this Business Plan.

Alternative Disposition Mechanisms for Deferral Account

In the Board Finding (Decision with Reasons issued December 19, 2003), the Board stated that in its next submission, the IMO should consider, in addition to the methodology approved in the 2004 Application, alternative disposition mechanisms for disposing of the accumulated balance.

In response to the Board direction, the following sections outline the past treatment of the deferral account balance, sets the principles that the IMO applies for the usage of the deferral account balance, and provides for several alternative disposition mechanisms considered by the IMO.

Past Treatment of Deferral Account Balance

In its Year 2000 Fees Submission (RP-1999-0049), the IMO applied for the establishment of a deferral account to deal with cost or revenue variance from forecasts. Each year, at the time of filing, the projected balance for the deferral account has been taken into consideration in setting future fee levels.

In last year's application, the cumulative surplus of the deferral account balance was proposed to be allocated to 2004, 2005 and 2006, offsetting the annual operating deficits budgeted to occur in each of these years. This strategy allowed the IMO to support a fixed fee over the planning period in last year's Business Plan.

Prior to considering various alternative disposition mechanisms, it is important to also review the principles for the use of the deferral account balance. These principles include:

- The IMO must fulfill its objects, as outlined in legislation;
- The utilization of the deferral account does not represent a substitute for strong, demonstrated, fiscal prudence;
- Stable fee levels are desirable; and
- The ultimate beneficiaries of the deferral account balance are the market participants.

Alternative Disposition Mechanisms

The principles outlined above assisted the IMO in developing potential alternative disposition mechanisms. The following outlines each of those alternatives considered.

1. *The IMO Continue to Hold the Deferral Account Balance for Contingencies and Fee Stabilization Purposes.*

Under this alternative, the IMO would continue to hold the balance of the deferral account to fund planned, or unplanned operating deficits over the planning period. As outlined previously in this plan, there are some specific significant uncertainties related to demand levels that would impact the IMO's revenues, capital costs associated with the DAM remain uncertain impacting the level of amortization in the latter years of the Plan, while costs incurred to support the transition to the government's new hybrid model for the electricity industry in Ontario remain unknown. These are the larger identified uncertainties at the current time that have not been factored into this Plan. In addition, there are certainly other factors that could result in worst than planned financial results, which might include: higher interest rates and assets placed in-service earlier than planned.

The overall intent of the deferral account was to recognize the uncertainties within the IMO's business and to recognize that those items are not always within the control of management or reasonably foreseeable or estimable at the time of business planning.

Recognizing that those prior uncertainties have led to the current accumulated surplus balance, it seems reasonable that this balance would be utilized to support the continuation of a fixed fee if the previously discussed uncertainties materialize and impact the financial results of the IMO over the planning period.

This represents the recommended option of IMO Management. This approach would be reviewed each year going forward as part of the IMO's fees application.

2. *The IMO continues to hold the Deferral Account Balance for contingent costs related to the Day-Ahead Market*

Under this alternative, the IMO would continue to hold the deferral account balance, but could only utilize the resources if the overall costs of DAM are higher than the planning assumption within this plan. If the capital cost of DAM was higher than \$56.2 million, then the amount, up to the balance of the accumulated surplus balance, would be utilized to reduce the impact of increased amortization in future years. This alternative would help to allow rate stability for market participants. The weakness in this alternative is that it limits the use of the accumulated surplus only to this one specific uncertainty.

3. *The IMO continues to hold the Deferral Account Balance for Revenue Uncertainties*

Under this alternative, the IMO would continue to hold the deferral account balance to augment revenue levels in the case that Ontarians are successful in their conservation or demand side management initiatives and therefore the energy levels are lower than those assumed in this Plan. Based on *Bill 100* and other government actions and statements, it would be imprudent to assume that energy levels will not be reduced over the planning period. However, given the lack of clarity on the specific programs, it is not practical or reasonable for the IMO to factor that into its current energy forecasts. Therefore, this alternative seems to best address this uncertainty. In addition, while the timing of DSM initiatives is not known, the impact of these measures on revenues would likely become apparent in the later years of the planning period. Similar to the previous alternative, this alternative would help to allow rate stability for market participants but would limit the use of the accumulated surplus for this one known uncertainty.

4. *Rebate Surplus*

This alternative would see the accumulated surplus returned to market participants in the form of a rebate, while maintaining the IMO fee at \$0.959/MWh in fiscal 2005. This seems to appear a reasonable approach as it would result in the surplus being returned to market participants and it is market participants that paid those funds initially. However this alternative would seem to go against the very reason for a deferral account – to handle uncertainties. In this Plan, the IMO is outlining reasonable uncertainties that would result in operating deficits as early as 2005 and necessary fee increases starting in 2006 if the uncertainties materialize and the accumulated surplus is unavailable. Based on the estimates included in this Plan, even without the uncertainties, the depletion of the accumulated surplus through a rebate would result in a required fee increase of almost five percent in 2007. It does not seem prudent to raise

the fee as would be required in 2007 to only then have the fee reduced again, since the preliminary view of 2008 is that the IMO will likely be able to operate within the \$0.959/MWh as amortization reduces significantly as market systems are replaced over this planning period at costs much lower than the original systems implementation.

5. Utilize the surplus to reduce the IMO's fee in fiscal 2005

This alternative would result in the surplus being utilized to reduce the IMO's usage fee to a level such that the IMO incurred a budgeted operating deficit equivalent to the projected surplus, specifically \$0.868/MWh. However, similarly to alternative number four, this alternative goes against the original reason for the creation of a deferral account – to handle uncertainties. In addition, as the IMO would then have to increase its usage fees in 2006 and again in 2007, after lowering them in 2005, this alternative runs counter to the objective of rate stability.

IMO Proposal for Deferral Account Balance for 2005 Fees Submission

The list of alternative disposition mechanisms outlined above is by no means exhaustive. Any combination of these disposition mechanisms could be used for the deferral account balance.

For its 2005 Fees Submission, the IMO proposes to continue to hold the deferral account balance for contingencies and rate stabilization purposes. As already outlined above, this disposition mechanism for the deferral account balance would:

- Address the known and unknown financial uncertainties over the planning period; and
- Add to the stability of rates, consistent with the new retail electricity pricing structure to be implemented by the OEB.

Appendix 1: Financial Statements

Actual and Pro Forma Statement of Operations and Accumulated Surplus For the Year Ended December 31 (in Millions of Canadian Dollars)

	2002 Actual	2003 Actual	2004 Proj.	2005 Budget	2006 Plan	2007 Plan
REVENUES						
Usage fees	146.7	148.9	150.6	149.4	151.2	153.3
Market-related interest income	1.8	4.2	2.3	1.7	2.0	2.4
Cost recovery for services	0.9	0.9	1.2	1.7	1.7	1.7
Total Revenues	149.4	154.0	154.1	152.8	154.9	157.4
EXPENSES						
OM&A program costs	80.8	75.1	80.3	84.3	87.2	89.4
OM&A pension expense	(0.2)	4.1	7.2	7.9	9.4	9.7
Market evolution program	-	3.1	3.8	0.6	0.1	-
Integration management program	2.0	-	-	-	-	-
Amortization	46.2	51.2	52.9	51.3	49.1	54.4
Interest	19.5	17.8	9.2	8.7	8.2	7.8
Total expenses	148.3	151.3	153.4	152.8	154.0	161.3
Operating surplus/(deficit)	1.1	2.7	0.7	-	0.9	(3.9)
Accumulated operating surplus - end of year	10.7	13.4	14.1	14.1	15.0	11.1
Market-related sanctions and voluntary payments	-	2.2	0.1	-	-	-
Consumer education fund expenditures	-	-	(0.2)	(2.0)	-	-
Accumulated market-related sanctions and voluntary payments - end of year	-	2.2	2.1	0.1	0.1	0.1

Actual and Pro Forma Statements of Financial Position
As at December 31
(in Millions of Canadian Dollars)

	2002 Actual	2003 Actual	2004 Proj.	2005 Budget	2006 Plan	2007 Plan
ASSETS						
Current Assets						
Cash & cash equivalents	47.8	36.9	47.5	55.4	47.6	52.1
Temporary investments	65.2	12.5	-	-	-	-
Accounts receivable	16.4	17.8	17.0	16.6	16.9	17.2
Short-term prepaid expenses	1.8	1.5	1.3	1.3	1.3	1.3
	131.2	68.7	65.8	73.3	65.8	70.6
Property & Equipment						
Property & equipment in service	325.6	319.7	331.2	349.4	418.8	433.0
Less: accumulated amortization	(88.6)	(108.3)	(161.1)	(212.4)	(261.5)	(315.9)
Net book value	237.0	211.4	170.1	137.0	157.3	117.1
Construction-in-progress	14.2	1.7	5.0	43.5	5.2	12.0
	251.2	213.1	175.1	180.5	162.5	129.1
Other Assets						
Long-term investments	-	6.5	7.9	9.3	10.7	12.1
Prepaid pension expense	24.4	24.6	22.1	20.1	17.1	14.4
	24.4	31.1	30.0	29.4	27.8	26.5
TOTAL ASSETS	406.8	312.9	270.9	283.2	256.1	226.2
LIABILITIES						
Current Liabilities						
Accounts payable & accrued liabilities	15.8	16.4	21.4	32.6	26.6	22.4
Accrued interest	3.7	2.0	1.6	1.8	1.6	1.5
Current portion of long-term debt	275.0	-	125.0	-	100.0	-
	294.5	18.4	148.0	34.4	128.2	23.9
Long-term debt	78.2	253.2	78.2	203.2	78.2	153.2
Accrual for employee future benefits other than pension	23.4	25.7	28.5	31.4	34.6	37.9
TOTAL LIABILITIES	396.1	297.3	254.7	269.0	241.0	215.0
ACCUMULATED SURPLUS	10.7	13.4	14.1	14.1	15.0	11.1
ACCUMULATED FINES/PENALTIES		2.2	2.1	0.1	0.1	0.1
TOTAL LIABILITIES & ACCUMULATED SURPLUS	406.8	312.9	270.9	283.2	256.1	226.2

Actual and Pro Forma Statement of Cash Flows
For the Year Ended December 31
(in Millions of Canadian Dollars)

	2002 Actual	2003 Actual	2004 Proj.	2005 Budget	2006 Plan	2007 Plan
OPERATING ACTIVITIES						
Operating surplus/(deficit) for the period	1.1	2.7	0.7	-	0.9	(3.9)
Market Penalties and Fines	-	2.2	0.1	-	-	-
Consumer Education Fund Expenditures	-	-	(0.2)	(2.0)	-	-
Amortization	46.2	51.2	52.9	51.3	49.1	54.4
(Increase)/Decrease in prepaid pension expense	(0.2)	4.2	7.5	8.3	9.7	9.7
Increase in accrual for employee future benefits	1.7	2.3	2.8	2.9	3.2	3.3
Pension plan contributions	(0.1)	(4.4)	(5.0)	(6.3)	(6.7)	(7.0)
Changes in non-cash items related to operations	(2.8)	(2.9)	(0.8)	(0.7)	0.6	0.5
Cash Provided from Operations	45.9	55.3	58.0	53.5	56.8	57.0
INVESTING ACTIVITIES						
Net (purchase)/sale of temporary investments	(65.2)	52.7	12.5	-	-	-
Purchase of Long-term Investments	-	(6.5)	(1.4)	(1.4)	(1.4)	(1.4)
Investment in property & equipment	(49.0)	(12.4)	(8.5)	(44.2)	(38.2)	(26.1)
Cash Used in Investing Activities	(114.2)	33.8	2.6	(45.6)	(39.6)	(27.5)
FINANCING ACTIVITIES						
Retirement of long-term debt	-	(100.0)	(50.0)	-	(25.0)	(25.0)
Cash Used in Financing Activities	-	(100.0)	(50.0)	-	(25.0)	(25.0)
NET CHANGE IN CASH FLOW	(68.3)	(10.9)	10.6	7.9	(7.8)	4.5
CASH & CASH EQUIVALENTS - BEGINNING OF YEAR	116.1	47.8	36.9	47.5	55.4	47.6
CASH & CASH EQUIVALENTS - END OF YEAR	47.8	36.9	47.5	55.4	47.6	52.1

Appendix 2: OM&A - Business Unit Details

(\$ Millions)	2002 Actual	2003 Actual	2004 Projected	2005 Budget	2006 Plan	2007 Plan
Information, Technology & Infrastructure	34.4	29.8	30.2	31.6	33.3	34.1
Market Operations & Forecasts	16.9	18.7	20.3	22.7	23.2	23.8
Market Services	8.9	9.4	10.3	10.9	11.2	11.5
Corporate & Legal Affairs	5.0	5.6	7.0	6.9	7.0	7.2
Finance	3.9	4.1	4.2	4.5	4.8	5.1
Chief Executive Officer	2.9	2.9	3.2	3.3	3.4	3.5
Human Resources	2.1	2.5	2.7	2.8	2.8	2.7
Market Assessment & Compliance	1.6	1.9	2.1	2.3	2.3	2.4
Internal Audit	0.6	0.7	1.2	1.2	1.3	1.3
Board of Directors	1.6	1.3	1.2	0.9	0.9	1.0
Corporate Items	2.7	2.3	5.1	5.1	6.4	6.5
Total OM&A	80.6	79.2	87.5	92.2	96.6	99.1
Less: Pension Expense/(Income)	(0.2)	4.1	7.2	7.9	9.4	9.7
OM&A Program Costs	80.8	75.1	80.3	84.3	87.2	89.4

Appendix 3: Pension Expense

The following table outlines the changes in the various components that comprise the pension expense over the planning period. These figures present reflect the following assumptions:

- Rate of return on plan assets for 2003/2004 of 10.5%, largely consistent with the actual return to the end of July 2004;
- Rate of return on plan assets beyond 2004 of 7.25%, consistent with the plan's assumed long-term rate of return;
- Discount rate of 6.35%;
- Rate of compensation increases of 3.5%; and
- Rate of benefit increases of 3.0%.

Details of pension expense (\$ millions)					
Component	2004 Proj.	2005 Budget	2006 Plan	2007 Plan	Commentary
Total service cost	7.8	7.7	8.0	8.3	In 2005, total service cost decreases due to the largely offsetting impact of expected increase in salaries of active members and an increase in the discount rate. Increases in 2006 and 2007 due solely to expected increases in salaries of active members.
Employee contributions	(1.8)	(1.9)	(1.9)	(2.0)	
Interest cost (on liabilities)	16.9	18.1	19.1	20.4	Primarily related to expected normal increase in actuarial liabilities.
Interest credit (on assets)	(17.6)	(18.0)	(18.5)	(19.8)	In 2005 and 2006, the growth of the smoothed value of assets is lower than anticipated due to partial recognition in the smoothed value of low investment returns on the market value of assets in prior years. In 2007, the increase is primarily related to the expected normal increase in the value of the plan assets.
Amortization of prior service costs	0.7	0.7	0.7	0.7	
Amortization of experience (gains)/losses	1.5	1.7	2.3	2.1	In 2005 and 2006, the increase is due primarily to the impact of amortizing investment losses due to lower than expected fund returns in prior years.
Total pension expense	7.5	8.3	9.7	9.7	
Less: capitalized pension expense	0.3	0.4	0.3	-	
Pension expense charged to operations	7.2	7.9	9.4	9.7	

Appendix 4: Capital Projects

System Improvements and Software Upgrades⁹

(Presented in millions of dollars)

Project Name	Description	2004 Proj.	2005	2006	2007
Application Changes	Application changes represent changes to existing applications. This funding is spent on minor changes that are directed by the IMO's IT User Committee, a committee comprised of representatives from all business units.	\$3.3	\$2.0	\$2.0	\$2.0
Multi-Interval Optimization		1.4			
Resource Adequacy Market		0.4	0.4		
Human Resource Information System Upgrade	Upgrading of existing Human Resource Information System. This system encompasses payroll and other staff-related information management. This initiative was necessitated by the need to move to a more current infrastructure and to remain on a version of the applications that is vendor-supported.	0.4	0.1		
Program Management - Market Evolution Program	These costs represent the program management aspect of the MEP.	0.3	0.2	0.2	
Configuration Management	Implementation of configuration management software and related processes	0.3			
Report Reengineering	This initiative is being undertaken to improve the manner in which the IMO creates and distributes information to market participants.	0.2			
IT Security Software	Software implementation to improve the cyber security environment within the IMO and its systems.	0.1	0.3		
Remote Terminal Unit/Frame Relay and Router expansion	The expansion of existing facilities to facilitate the expected increase in information passed to the IMO from market participants.	0.1	0.2	0.2	0.2
Central Alarm Management	Comprehensive improvement to system alarms within the Energy Management System.		4.0	1.0	
Outage Management	Replacement of the existing Outage Management System. This initiative is being undertaken to provide participants with improved outage information in real-time and to reduce current process inefficiencies.		1.1		
Market Participant Interface Modernization	Improvements to the existing Market Participant Interface, allowing for easier access by participants and the use of recent technologies that are already in use by many market participants.		0.8		
Message Exchange Upgrade	Upgrade of the existing message exchange.		0.3	0.2	
MV90 Upgrade	Application upgrade of the existing MV90 solution, a system utilized to retrieve meter data.		0.1	0.1	
Real-Time Web Interface	Improvements to the existing Web interface		0.1	0.1	
Market Information System/Energy Management System Upgrade/Replacement	Upgrade of the existing Energy Management System and Market Information Systems			5.0	7.0
MVStar Application Upgrade	Application upgrade of the existing MVStar solution, a system utilized to process meter data.			0.1	
Real-time Commercial Reconciliation System Upgrade	Upgrade of the existing real-time commercial reconciliation system.				0.5
Other Minor Projects		0.2		0.3	0.4
TOTAL		\$6.7	\$9.6	\$9.2	\$10.1

⁹ Costs included in this table represent the forecasted cost in the year. Some projects may have actual costs prior to 2004 or forecasted costs beyond 2007.

IT Infrastructure(Presented in millions of dollars)¹⁰

Project Name	Description	2004 Proj.	2005	2006	2007
Storage Enhancements	Upgrade the existing storage solutions, to meet the existing and expanding storage needs of the business.	\$1.2	\$0.9	\$0.2	\$0.2
Real-time Telemetry Upgrade	Upgrade and expand the infrastructure necessary for receiving telemetry information, to meet ongoing expansion needs.	0.9			
System Voice Circuit Replacement	Implementation of telephony solution to meet voice communication needs that were lost when the IMO discontinued use of previous system voice circuits. This project commenced in 2002.	0.9	0.1		
Windows Server Infrastructure Upgrade	Replacement and upgrade of existing windows server environment. This environment hosts most non-market applications. This work is necessitated by the age of existing infrastructure.	0.5	1.4	0.5	-
Unix Server Infrastructure Upgrade	Replacement and upgrade of existing Unix server environment. This environment hosts most market applications. This work is necessitated by the age of existing infrastructure.	0.3	2.5	2.5	1.0
Network Infrastructure Replacement	Replacement of poorly performing network components. This project started in 2003.	0.3	0.1		
Public Key Infrastructure Replacement	Modifications to the participant security aspect of the market systems due to a change in vendor.	0.3			
MV90 Reliability Improvements	Infrastructure improvements to ensure continued reliable operation, necessitated by the increased volume of data requiring processing in a static time period.	0.2	0.3		
Remote Access Upgrade	Replace existing employee remote access solution. This work is necessary due to increased security concerns and the availability of newer, more effective solutions in the marketplace.	0.1	0.4		
Desktop and Server Management Software	Implement software to allow increased monitoring of desktop and server activity. This work is being undertaken to improve the reliability of the overall infrastructure and to more efficiently manage employee desktops.	0.1	0.1	0.2	
Back-up Operating Centre Relocation and configuration	Relocation of back-up operating centre.		2.5		
Tape backup	Replace existing tape back-up infrastructure, to improve both efficiency and effectiveness. This is necessitated by aging infrastructure and increased data storage.		1.0		
Interconnection Metering	Installation of new interconnection meters.		0.1	0.2	
File Archive	Replace existing file archiving approach and solution, resulting in more efficient file archival and retrieval. This is necessitated by aging infrastructure and increased data storage.			0.5	
System Data Repository Constellation	Reconfiguration of the System Data Repository (SDR). The SDR is a data repository of most market activity. This repository is utilized to support ongoing analysis and reporting obligations.	-	-	0.3	0.3
Other Minor Projects and Contingency		0.5	0.4	0.5	0.5
TOTAL		\$5.3	\$9.8	\$4.9	\$2.0

¹⁰ Costs included in this table represent the forecasted cost in the year. Some projects may have actual costs prior to 2004 or forecasted costs beyond 2007

Appendix 5: 2004 Corporate Performance

Performance to the end of August

Objective	Performance Measure	Performance Expectation	Current Status
Effective Use of Constrained Funds	Total spending (OM&A + Interest + Amortization) compared to the budget amount approved by the IMO Board.	Total spending (OM&A + Interest + Amortization) is within the amount approved by the IMO Board.	On Track: Total spending to the end of August is \$97.8 million, \$7.0 million lower than the year to date budget of \$104.8 million. Currently, projected total spending for 2004 is \$153.4 million, a level that would be \$2.8 million below the approved budget.
	Capital spending associated with current operational mandate is performed within budget amount approved by the IMO Board, timelines are met, and required results are achieved.	Approved Capital expenditures for the Market Operation Program are within budget and required results are delivered according to approved schedule.	On Track: Current operations program capital expenditures are \$2.9 million to the end of August. The 2004 projected capital expenditure level for current operations is \$10.4 million, a level that is within the approved budget.
Marketplace Evolution Effectively Managed	Appropriate evolution of the market is achieved and managed effectively.	Recommendations to Board are made in a timely manner. Approved Capital expenditures for market evolution are within budget and required results are delivered to approved schedule.	On Track: Schedules and estimates for specific phases of Market Evolution Program projects were accepted by the IMO Board during the first quarter. It is projected that \$4.1 million will be spent of the \$26.4 million initially budgeted for 2004. Regular reviews and project status updates have been provided to the IMO Board regarding these initiatives.
Customer/Stakeholder Satisfaction	IMO's preparation and operation of the marketplace meets participants' and stakeholder needs.	IMO 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. This assessment is to be based on surveys, customer comments and other anecdotal evidence.	On Track: -The 2003 consultation effectiveness review recommended improvements to the process. These have been implemented and initial feedback has been positive. A review of the impact of Bill 100 on the consultation process is being conducted. Extensive stakeholdering was completed during the first eight months including over 60 committee and working group meetings. The IMO also completed six roundtable discussions in London, Toronto, Mississauga, Sudbury, Windsor and Ottawa on the future of Ontario's electricity sector. Feedback from participants has been very positive and the IMO is continuing the discussions across the province. - Market information and Communications met all obligations and provided value-added reports and messages. The new, expanded IMO web site was launched as scheduled on April 1. - Help Centre performance and account management received positive reviews from customers. IMO training courses continually assessed as superior. These assessments will be further guided by customer survey results in the 4th quarter as well as ongoing stakeholder-focused improvement discussions with MAC and committees, and through regular internal improvement reviews.

Performance to the end of August

Objective	Performance Measure	Performance Expectation	Current Status
Operational Effectiveness	Control of tie line flows under normal and disturbance conditions meets or exceeds industry median	DCS, CPS1 & CPS2 meet/exceed median values for Eastern Interconnection Control Areas >10,000 MW	On Track: DCS, CPS1 & CPS2 are tracking at or above median levels
	Electrical reliability is maintained within the province	IMO actions to avert/address significant reliability events are assessed as appropriate	On Track: Results to date support an assessment that appropriate measures have been taken by the IMO in addressing significant reliability events. The North American Electric Reliability Council (NERC) posted their audit of the readiness of the IMO to perform its assigned reliability responsibilities in April, 2004. The results of the audit indicate that the IMO meets or exceeds electricity system reliability standards. The 2004 NPCC peer group review/appraisal will be completed in the 4th quarter, incorporating actions and assessments of the entire year.
	Market systems and processes operate effectively	Assessed on a suite of market operations performance measures	On Watch: Performance relative to 23 operational measures is generally good, however ongoing attention will be required. Three measures are currently assessed as being at risk that the performance expectation at year end will not be met: Dispatch and Scheduling Instructions, Day Ahead Hourly Demand Forecast Bias, and Administrative Pricing Duration.

Market Operations Performance Measures

Category/Name	Measure	Criteria	Performance Standard	Status Year to Date
Provide Sufficient Information For Effective and Successful Bids and Offers				
Implement Intertie Schedules	Accuracy	Average for the year	≥98%	99.9%
Publish SAA's and SSR's	Timeliness	Published as per Market Rule timelines	≥97%	99.4%
Day Ahead Hourly Demand Forecast	Accuracy	Average absolute error for the year	≤3%	1.9%
		Average bias* for the year	≤5%	9.4%
Outage Request Processing	Accuracy	Processed vs. Valid	≥97%	99.6%
Transmission Rights Auction Processing	Timeliness	Processed as per Market Rule timelines	<3 failures to complete a full auction per year	0 failures
Publish Price Every 5 Minutes	Completeness	Average for the year	≥99%	99.9%
Continuous Operation Of the Market	Frequency of Market Suspension	Number of market suspensions per year	<3 suspensions	0 suspensions
	Duration of Market Suspensions	Total duration of market suspensions per year	<20 hours	0 hours
Market Services				
Settlement-ready Meter Data	Timeliness	Available next trading day	≥99.3%	99.7%
Meter Trouble Reports Issued to Meter Service Providers	Timeliness	Available next business day	≥ 88%	94.9%
Meter Trouble Reports Closed	Timeliness	Closed on the 1st business day after the receipt of a satisfactory resolution from the Meter Service Provider	≥ 88%	97.5%
Preliminary and Final Settlement Statements	Timeliness	Issued as per schedule	≥ 99%	100%
	Accuracy	No IMO errors	≥ 99%	99.9%
Help Centre Performance	Average time to close an open ticket	Average for the year	≤ 12 days	10.0 days

* Over an entire period, the percentage of time that the day ahead hourly demand forecasts were above and below actual Ontario hourly demand are calculated. Then 50% is subtracted from the larger of the two percentages to yield the bias. If the larger percentage was based on forecasts being above actual demand, the bias sign is positive. If the larger percentage was based on forecasts being below actual demand, the bias sign is negative. (Example 1: A quarter in which forecasts that were above actual demand occurred in 52% of hours, resulting in a bias of +2%. Example 2: A quarter in which forecasts that were below actual demand occurred in 54% of hours resulting in a bias of -4%)

Market Operations Performance Measures

Category/Name	Measure	Criteria	Performance Standard	Status Year to Date
Invoice Market Participants				
Issue Invoices	Timeliness	As required per <i>IMO Settlement Statement Payments Calendar</i>	≥99%	100%
	Accuracy	Average for the year	≥99%	100%
Administrative Pricing				
Administrative Pricing (AP)**	Frequency	Number of occurrences of AP per year	≤50	33
	Duration	Number of intervals AP applied per year	≤250	196
Market Facing Systems Availability				
Outbound Market Reports Publication	Availability	Average for the year as per respective schedule	≥99.0%	99.4%
Market Participant Interface	Availability	Average for the year	≥99.0%	99.8%
Dispatch & Scheduling Instructions	Availability	Average for the year	≥99.5%	99.5%
Corporate Web Site	Availability	Average for the year	≥99.0%	99.5%

** Changes made to the Market Rules implemented on July 26, 2004 resulted in a different methodology for defining the administrative pricing measures. These charges are expected to increase both frequency and duration.