

Market Assessment Research

- Wave 3 -

Prepared for:



December 2004
P04-250

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Introduction

Background



- As part of its ongoing commitment to improving service to market participants, this research endeavor was commissioned by the IMO in the fall of 2004 in order to gauge participant evaluations of the organization since the launch of Ontario's wholesale electricity market in May of 2002 and, in particular, track year over year changes.
- This research represents the third wave of the IMO's research initiative. Based on feedback from the IMO, a few changes were made in the second wave of interviewing ...
 - Questions that did not provide actionable feedback were removed; and,
 - In their place, new lines of questioning were added to touch on recent issues.
- The over-arching objective of this research is to compare satisfaction results to previous waves and identify any areas where improvements have been made. We also want to continue to identify specific participant concerns in an effort to prioritize and affect customer satisfaction and loyalty levers.
- A total of 75 one-on-one personal interviews were conducted between November 11th and December 15, 2004 with a cross-section of executive level market participants.

Background



- A total of 75 one-on-one personal interviews were conducted between November and December, 2004 with a cross-section of executive level market participants. Overall, distribution of interviews between market participant classes is consistent with the composition of the 2002 & 2003 sample:

| Participant Class | Number of Interviews | | |
|-------------------------------|----------------------|------|------|
| | 2002 | 2003 | 2004 |
| Generators | 14 | 16 | 13 |
| Transmitters | 3 | 3 | 3 |
| Distributors | 23 | 20 | 33 |
| Wholesale Consumers | 38 | 37 | 29 |
| Wholesale Sellers | 12 | 14 | 13 |
| Retailers | 9 | 7 | 8 |
| Financial Market Participants | 7 | 9 | 8 |
| Total: | 73 | 76 | 75 |

- Primarily taking the form of a quantitative interview, all discussions followed an approved guide.

Participant Profile



| | | Total (% stated) |
|---------------------------------------|---------------------------|---------------------|
| | | (n=75) |
| <i>Number of Employees</i> | | |
| | Under 50 | 24 |
| | 50 to 499 | 39 |
| | 500 to 999 | 7 |
| | 1000 or more | 29 |
| | Not stated | 1 |
| <i>Plant Operations</i> | | |
| | Single site | 28 |
| | Multiple site | 29 |
| | Not Stated | 43 |
| <i>Annual Electricity Expenditure</i> | | |
| | Under \$ 5-million | 21 |
| | \$5 to 19-million | 17 |
| | \$20 to 100-million | 17 |
| | \$100-million or more | 10 |
| | Not Stated | 35 |
| | <i>Average (millions)</i> | <i>60 million</i> |

Among Multiple Site Plants

→

- 1-4 Plants 32%
- 5-9 Plants 36%
- 10 + Plants 23%
- No Answer 9%

*Caution: small base sizes

Summary of Results

Summary of Results



A Year Later.....

- The IMO continues to sustain a strong image with participants on its role in the Ontario electricity market. In contrast to 2003, (in which the IMO was seen as the leading authority on all aspects of the market), this year there has been a shift in leadership/authority in the view of participants . While the IMO remains the acknowledged authority on market operations, the Provincial Government and the Ontario Energy Board have made significant advances on establishing themselves as the authority in some areas. The Province is seen as either a key or leading player in market design and evolution, while the OEB is seen as having a greater role in enforcement.
- Market participants expressed a more varied series of views on the market than in previous years. For example,wholesale consumers expressed continued reservations about doing business in the Ontario market while outside financial and investment companies saw the Ontario market as an opportunity especially on the generation side. LDCs showed a marked resignation to awaiting direction from decision makers on what their respective roles may be in the new legislative scheme.
- Market participants are keen on advocating for the market ie they still believe in the model but look to the IMO to be the facilitator and to defend their interests and those of the market to decision makers such as the Provincial government and the Ontario Energy Board. There appears this year a greater sense of frustration that participant input has less value because of perceptions that the Government and hence the IMO are going to follow their own plan for the market.
- The gains in performance that the IMO attained over the past two years appear to have leveled off or declined slightly in 2004. For example. Participant's overall ratings of the IMO on aspects such as quality of service,value for dollar and confidence have shown some deterioration over 2003. In addition, the information from the IMO which is designed to help market participants make "better and informed decisions" is given mediocre ratings in terms of its relevance.

Summary of Results (cont'd)



- **Confidence in different groups within the IMO has not changed significantly in the past year with the exception of billing and settlements and market surveillance which have noticeably improved. The latter group was mentioned in 2003 as requiring increased visibility. Participants remain convinced of the view that the IMO is a key part of delivering a reliable market and being a key source of information and support to market players.**
- **While technical and operational skills underpin a lot of the IMO trust with participants, as a maturing organization it needs to be more articulate in terms of demonstrating its vision for the Ontario market and building behaviours more reflective of a customer focused entity.**
- **Most participants are aware at some level of Bill 100 and its changes in the future market. While most see the changes as a move back to central planning, they are generally supportive of the direction because among other things it may bring some long sought stability to the market. Most believe that the IMO will become more focused on operations as opposed to design and policing and lose some of its independence through increased accountability mechanisms.**

Summary of Results (cont'd)



IMO Performance

- As the Ontario market continues to evolve, Participants reflect a greater sense of maturity and comfort with market operations. In this context, the IMO continues to be seen as a leading authority on most elements of the market ,predominantly operations. The Province and the OEB have clearly established a new presence especially in the areas of market evolution,design and enforcement.
- While fewer Participants (65%) believe that they are in a “customer relationship” with the IMO than in 2003, the relationship remains difficult to articulate beyond “transactional terms”. The IMO needs to continue to display more behaviours that reflect a “customer-focused mindset”.
- The IMO has created a recognized presence in all aspects of the Ontario electricity market. While this relates predominantly to the integration of supply and demand and market facilitation, Participants are moderately confident in the ability of the Ontario Power Authority to create stability (58% rate it 4-7 in terms of confidence).
- The ability to maintain an open, personal and relevant dialogue is critical to sustaining the relationship with Participants. While current communication efforts ie committees appear to attract predominantly large companies, the IMO might consider approaches to the small and medium sized Participants and those beyond southern Ontario. In addition, participants are interested in the degree to which the Committees actually affect decisions before they commit resources to participation.
- The IMO does have a positive and established relationship with participants with 74% describing it as unchanged in the past year but also 61% rate the relationship at an 8-10. This view holds across all participant classes . The website, help centre and personal contacts remain the preferred methods of communication.

Summary of Results (cont'd)



- While the IMO is sustaining a strong level of satisfaction on 3 of 6 elements of its vision (reliable supply, market facilitation and information provision), aspects such as ensuring market fairness and exceeding customer expectations remain challenges. It is seen as focused on the the wholesale market (its core business) but has lost ground in the view of participants in being a champion of the Ontario market.
- Participants have not developed a sense of the IMO being a product/service provider. The IMO is best recognized for its technical /operational delivery and settlement management. The need to increase the profile of the “service package” would go some distance to building the “customer focus” and flexibility/adaptability that most seek.
- The IMO has shown improvement over 2003 in the delivery of some of its services ie transactions and market rules but still needs to move its total product mix up to the level attained by its delivery on “reliability” if it wishes to establish a customer niche.
- The corporate values rating to which the IMO aspires has improved over 2003 but continues to be strongest on the “utility” type aspects and less on the partnership/customer domain. There has been some deterioration in IMO ratings trustworthiness, honesty and objectivity among participants. The latter may be influenced by the belief that the IMO is pursuing its own agenda for the Ontario market.
- While Participants are aware that they financially support the IMO, the delivery of “value for dollar” has stabilized over 2003. The highest value will come from the dual commitment to sound operations and responsive service delivery. The latter is the area most in need of building. For example, the ability/willingness of the IMO to customize its services scores 4.8 out of 10 reflecting a view that the IMO may not fully appreciate the unique needs of participants.

Summary of Results (cont'd)



Confidence in the IMO

- While the political uncertainty of the past year surrounding the Ontario electricity market continues to frustrate Participants, most have strong confidence and an expectation that the IIMO will defend the current market model.
- Participants clearly see themselves as having a strong and vested interest in making the market work. They are committed to providing input/feedback to the IMO in the latter's role as facilitator. A growing concern in 2004 is the degree to which the input is believed to be genuinely sought.
- While the committee work associated with the Market Evolution Plan has attained strong recognition, it is attracting the companies with the largest revenues. The experience is building a sense of values ie service that are stronger than with non-participants. The IMO needs to seek opportunities to engage the balance of the participant classes ie US,out of Ontario,smaller players etc.
- In order to achieve more balance in decision making (in the view of Participants), the IMO needs to assess the degree to which the consumer and "loads" viewpoints are reflected in balance with the "perceived" heavier weighting given to such groups as OPG and Hydro One.

Summary of Results (cont'd)



Role of the IMO

- The IMO is given recognition in the 2004 results for increasing the stability, fairness and transparency of electricity prices. Of the three areas of pricing, fairness is still problematic in the view of customers since it is not a true market price and the view that the Government is too willing to manipulate the price to achieve short term objectives as opposed to move to a market price.
- Most do not look to the IMO as a source of energy management information. Hence, the ratings tended to be low on the IMO's promotion of conservation since they see no evidence upon which to judge. The same relates to the lower ratings on the IMO's creation of investor confidence, presenting a vision for Ontario's energy future and conducting supply contingency planning
- Most believe that the IMO could assist in creating some investor confidence but would need to be seen as more independent of government/politics and forthcoming on market confidence.
- Most believe that the wholesale market for electricity fully or partially exists. The positive elements tend to be the IMO's infrastructure, settlement process and ability to contract (the mechanisms). The biggest deficiency is seen as the lack of more and larger market players and the price setting strength of OPG.
- Consistent with 2003 results, over half of participants feel that they do not have an effective voice with the IMO on market evolution. The feeling seems more driven by a sense that the participants are too small individually to have an effect and a lack of responsiveness on the part of the IMO.
- Views are generally favourable to the IMO creating a "day ahead market" as a means of achieving better resource planning and more stable prices. Risks are predominantly in the realm of it be overly complex, potential for gaming and actual vs forecast price differentials.

Summary of Results (cont'd)



Market Evolution

- Participants (56%) continue to believe that the market is evolving generally but there remains a significant group that feel the political involvement and uncertainty is causing the market design to regress. Evidence of evolution relates principally to the 2 tier pricing, the governments new legislation, phase out of coal and the generation RFP
- Most Participants believe that the market model for electricity is best for their businesses as well as beneficial to the Province. Perceived impediments remain in the form of the price cap, government uncertainty and lack of investor confidence.
- In order for a competitive market to materialize, Participants strongly seek added generation capacity followed by removal of the price caps and rule/price stability.
- Most participants see Bill 100 as a move to attain adequate supply and regulate prices. Few see any benefits generally or to them beyond increased prices/costs and additional bureaucracy.
- Views on the realism of the conservation targets embodied in the government plan are evenly divided (55% realistic, 45% unrealistic) although most (71%) believe that energy conservation will “definitely or probably” become a greater corporate priority for the future.

Summary of Results (cont'd)



Conclusions

- The relationship that the IMO has built with Market Participants appears to have reached a plateau. As all parties in the market have gained more maturity/understanding, they have been more discerning in terms of value/expectations. The start of some decline in overall performance of the IMO should serve as a signal to decision makers of the challenges in building a sustainable customer relationship.
- Recognizing that most parties in the Ontario electricity market anticipate higher costs with the Government's new industry approach, customers will be increasingly looking for evidence of value especially from those entities such as the IMO that are "fee based". The slippage on the IMO's "value for dollar" and "quality of service" measure in 2004 signals a need to be vigilant in sustaining the strong position that has been achieved since market opening.
- In 2003, participants described the opportunity for the IMO to take "leadership" on a number of issues or aspects of the electricity market. Leadership has now become more diluted to participants. With the emergence of new entities to serve market participants, there is both an opportunity and a threat. The opportunity is for the IMO to define itself more visibly to participants in the context of the new framework and the value that it is delivering. Participants expect the IMO to be more focused in the new approach but have consistently challenged the organization to be customer focused. The "threat" is that other parties will build on their emerging responsibilities and engage customers/participants in a manner that supplants the IMO's strong relationship.

Summary of Results (cont'd)



Conclusions cont.

- The IMO has been recognized by participants for its technical capabilities and commitment to bring an operating electricity market to Ontario. With this evolution, all parties are assessing the evolutionary role/value that they deliver to the market. This ranges from the opportunity for investors in generation to the role of a LDC as a load swerving entity to the business executive wants to operate competitively in Ontario. Value is customer owned and hence attained.
- The IMO needs to work to overcome the perception among participants that its business agenda is not aligned with customer needs. Failure to achieve this continues to feed views such as biased decision making, lack of input in market evolution, a reluctance to commit to consultation/committees and the use of different information sources.
- From an information perspective, the IMO's website, help centre and account staff are preferred and established methods. In 2004, the issue appears to be one of ensuring that the relevancy of information is improved and is more reflective of information that the customer/participant needs and can use in decision making. Recognizing that participants would like to see the IMO assist in some training post Bill 100, it may be an opportunity to reassess the IMO's information product.

Detailed Findings

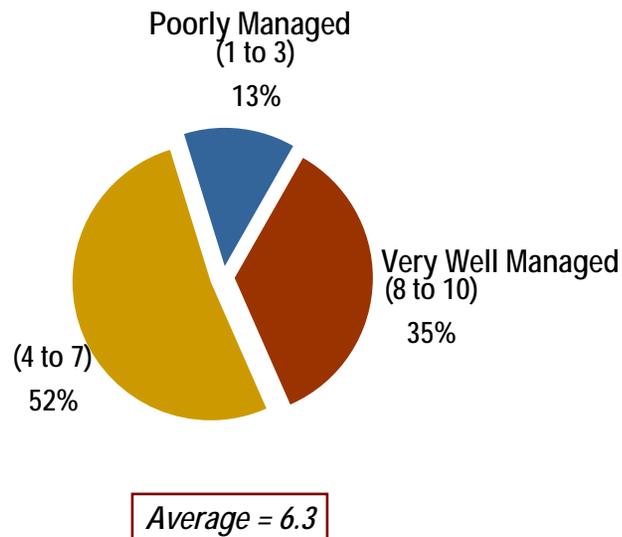
Overall Market Operations

Perceptions of Market Operation

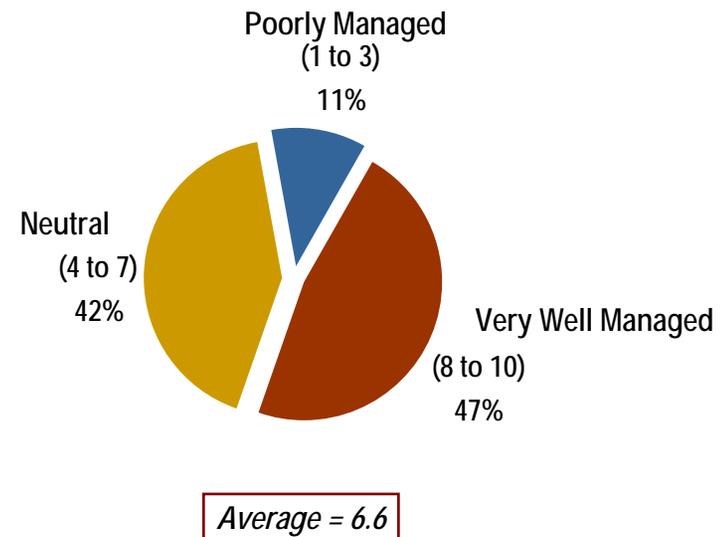


- Overall management of the operations of the Ontario electricity market shows continuing improvement on a year over year basis with an increase of 12 % among participants believing it was “very well managed”.

Previous 12 Months of Operation (2003)



Last 12 Months of Operation (2004)



*There are no significant differences among participant classes in 2004

S2Q1. How would you describe the last 12 months of market operations? Use a 10-point scale where 10 means it was well managed...

Electricity Pricing Evaluation



- When asked to assess various aspects of electricity pricing over the past year, stability is seen as having improved the most. Fairness and transparency are less strongly rated due to concerns about the price not being “true market” and methods by which prices are calculated.

Aspects of Electricity Pricing

(%8-10)



Reasons for Lower Evaluations*



- Difference between spot and regulated prices
- Market price set by government
- Marginal price becomes cost/ price
- OPG dominates, not true market price
- Prices kept low(gov't) to please voters
- Predispatch and real time price too divergent
- Price counter intuitive to market conditions
- Admin/ancillary costs out of sync with other ISOs
- Lack of intertie balance
- IMO suppresses the real price

*Among those saying 5 or less

S2Q5. How would you rate the following aspects of electricity pricing?

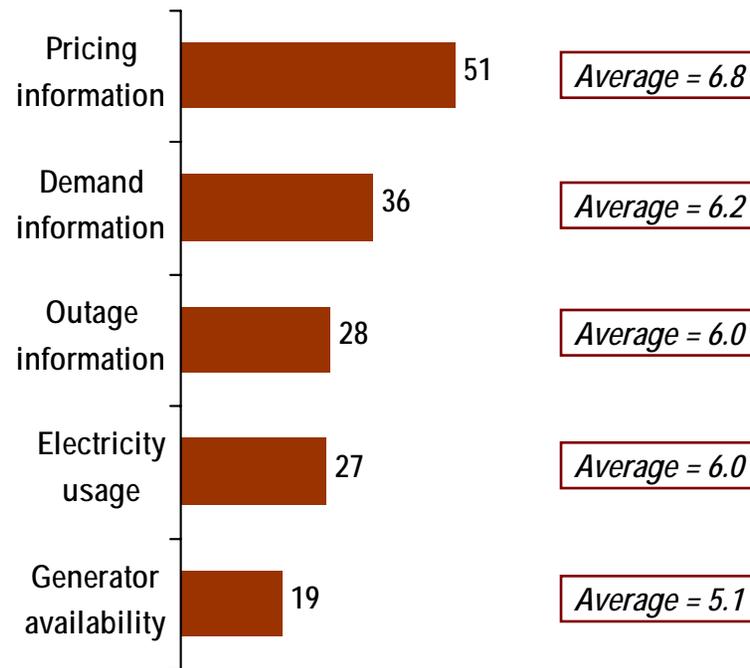
Helpful Information Provided by IMO



- While pricing information was seen as relatively the most helpful to businesses in making decisions, other areas were seen as having limited value. LDCs in particular tended to see limited value in any of the IMO information.

Information That Is Helpful in Making Business Decisions

(%8-10)



Summary of Overall Market Operations



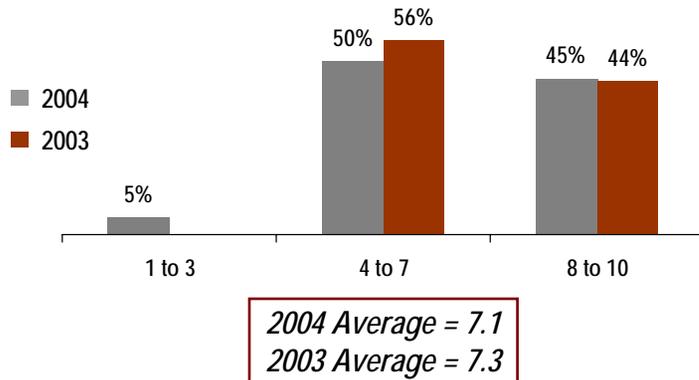
- Confidence in overall management of the Ontario electricity market continues to improve with 47% believing that it has been “well managed” in the past year. Participants cite a higher level of familiarity with respective roles, rules and staff with each year of operation.
- While somewhat diminished over 2003 results, the IMO is seen by participants as the single strongest contributor to the market’s successful operation.
- Authority for various aspects of the market has become more shared with the IMO still the authority on market operation. The Provincial Government is seen as having a more of a shared role with the IMO on market evolution and market design. In addition, the Ontario Energy Board shares added responsibility with the IMO on market evolution.
- The IMO, technical consultants and internal resources tend to be the sources most participants use to get information on the electricity market.
- Stability of electricity prices is seen by participants as markedly improved over 2003, while aspects such as “fairness” and “transparency” lag. The latter are due to views of prices not being “true market” and government interventions.
- IMO information is given moderate ratings in terms of its utility in helping participants make “better and informed decisions”.

Performance of The IMO

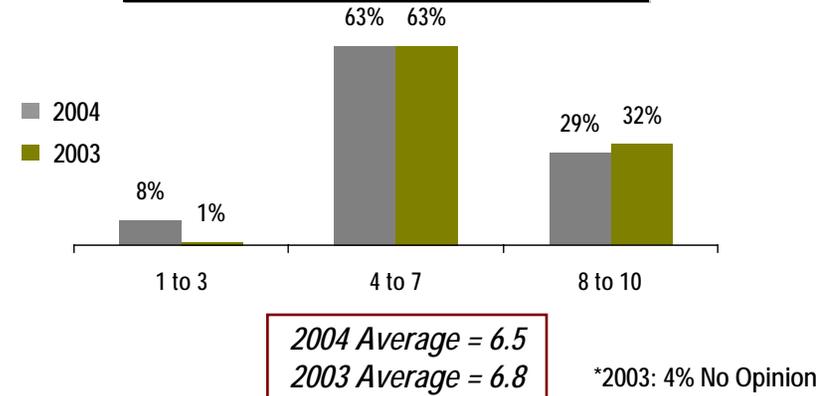
Overall IMO Performance

- In 2004, the IMO has shown declining ratings for overall confidence (7.1), value for dollar (6.5) and service satisfaction (7.0). In addition, the IMO is seen by participants as having some difficulty in customizing their services with a rating of 4.8 on meeting the unique needs of participants.

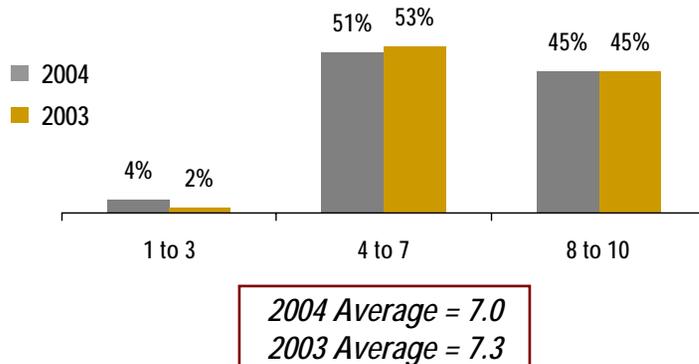
Overall Confidence in IMO (% saying)



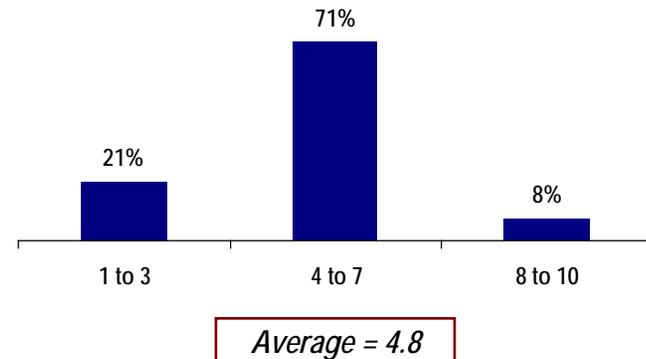
Overall Value For The Dollar (% saying)



Satisfaction with Quality of Service (% saying)



Ability of IMO to Customize Its Products to Meet Business Needs (% saying)

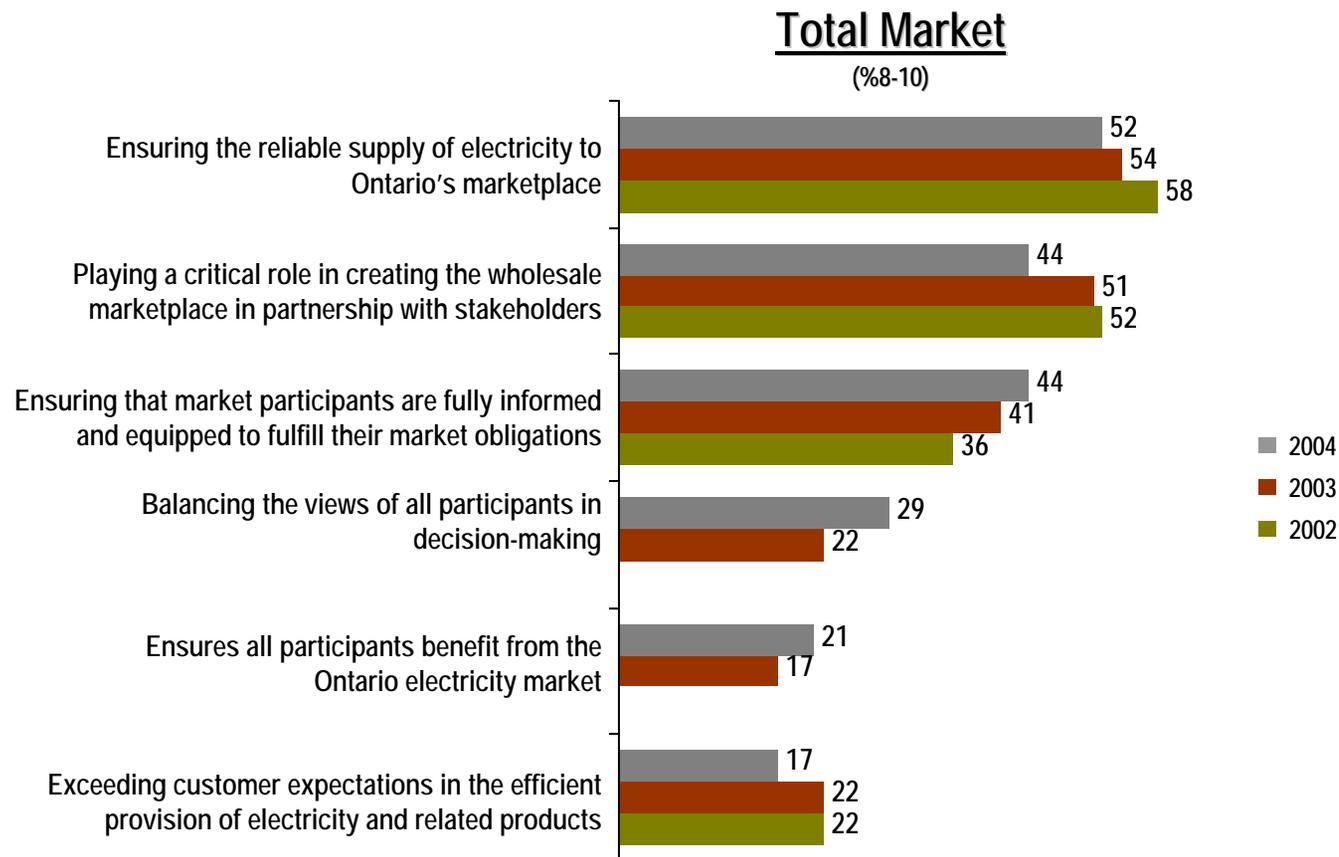


*There are no sig. differences between 2003 and 2004

Delivery on Vision and Mission



- Overall ratings on delivery of mission and vision elements remains unchanged with the strongest ratings (8-10) on ensuring reliable supply. There has been some improvement (+8%) on ensuring the market participants are informed. Lowest ratings are for delivering benefits from the market and exceeding customer expectations.



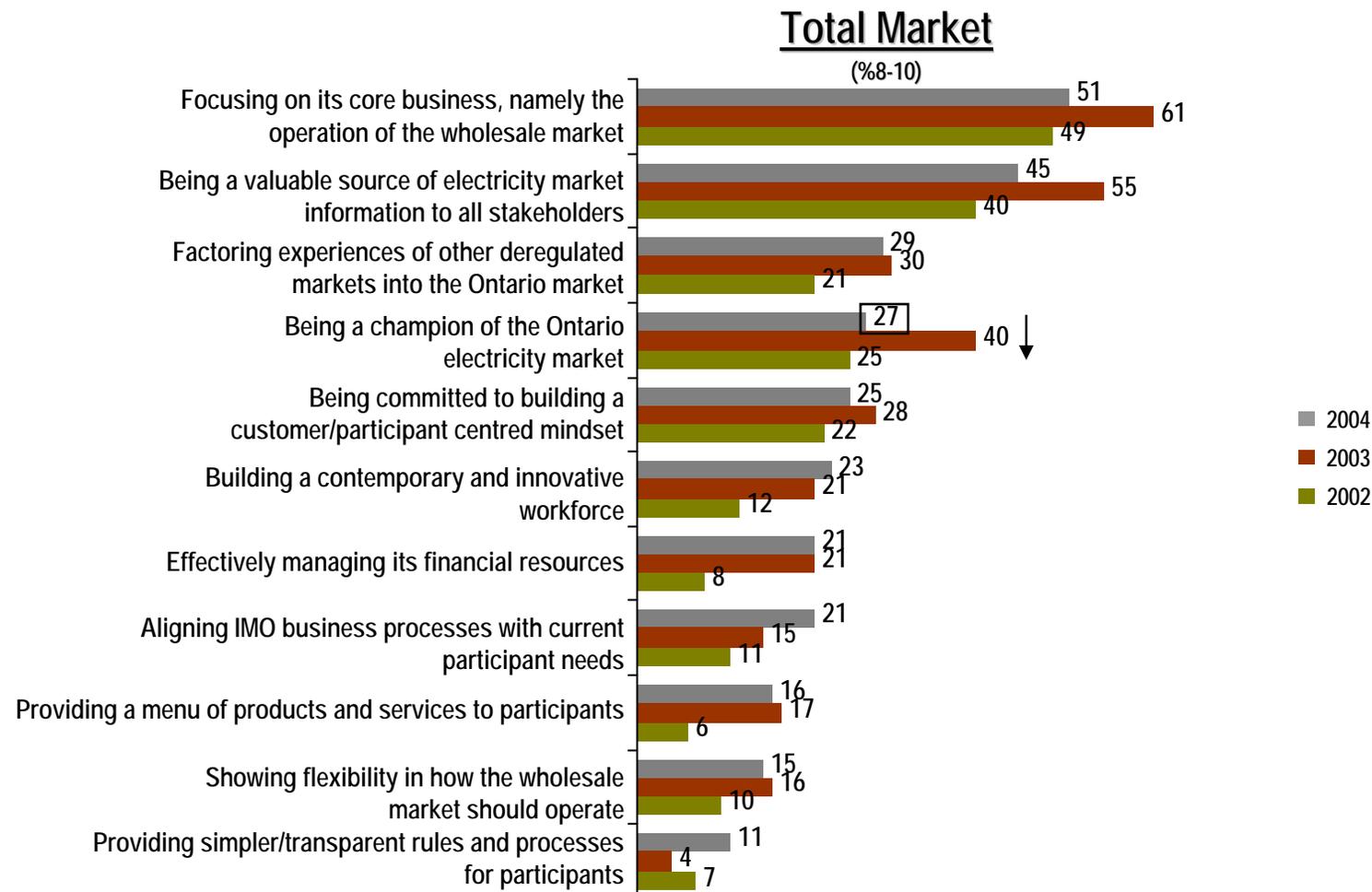
*There are no sig. differences between 2003 and 2004

S5Q6. How satisfied are you with the IMO's performance in terms of fulfilling its vision and mission? Please rate the IMO on each of the following elements using a 10-point scale where a 10 means extremely satisfied and a 1 is not at all satisfied.

Fulfillment of Business Priorities



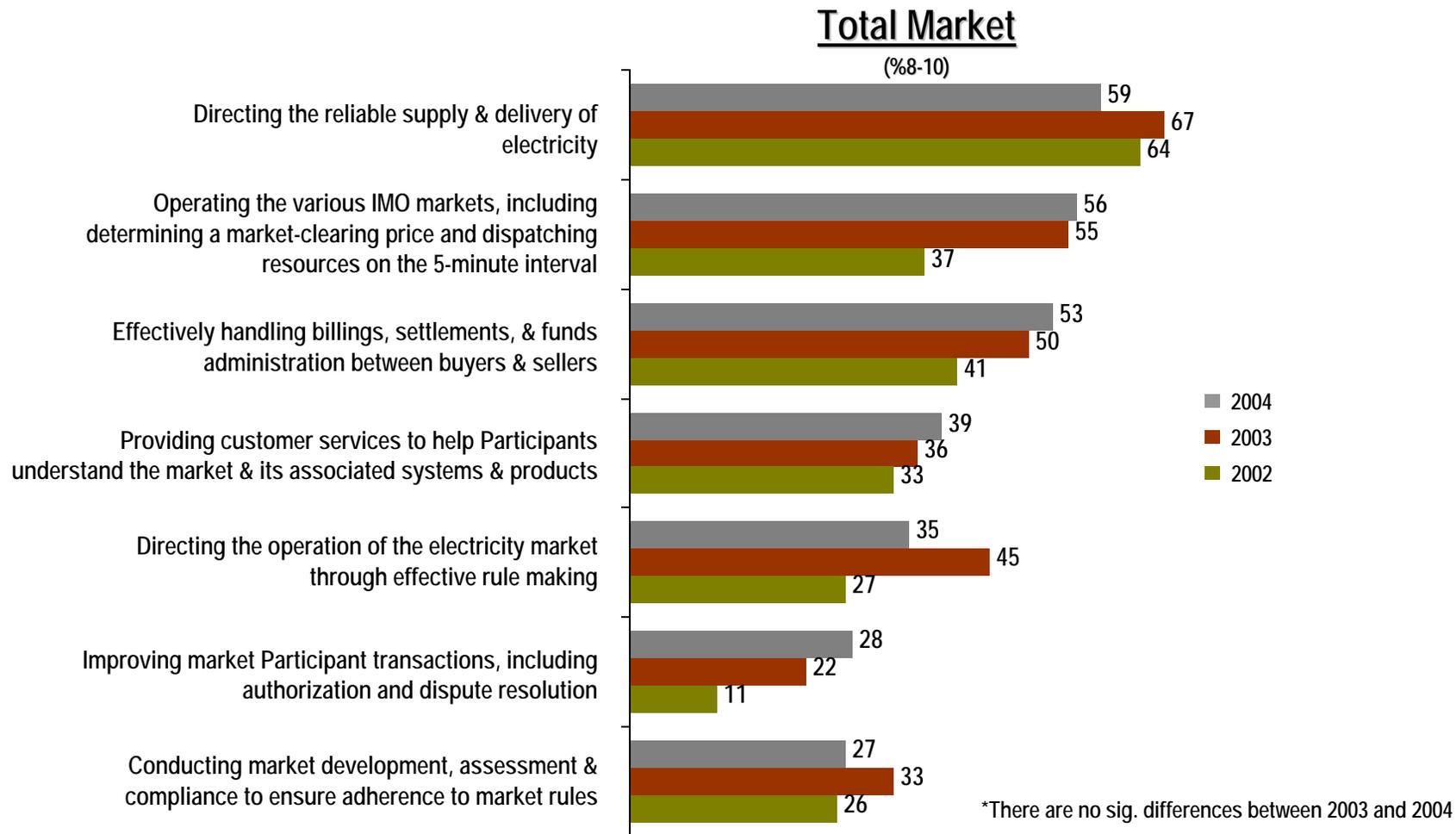
- The IMO has lost some ground on participant evaluations of their movement on business priorities. Focusing on the wholesale market (-10%), being a valuable information source (-10%) and being a market champion (-13%) while still the top rated priorities have declined. Showing flexibility and attention to simplicity remain the key challenges in the view of participants.



S5Q8. As the IMO evolves to become a business entity in the Ontario marketplace, how would you describe its progress on the following priorities? Please rate the IMO using a 10-point scale where a 10 means excellent and a 1 is poor.

Delivering on Current Product & Services

- Participant ratings on the IMO's delivery of various products and services remains unchanged over 2003. Ensuring reliable supply, operating the market and settlements are the highest rated services.

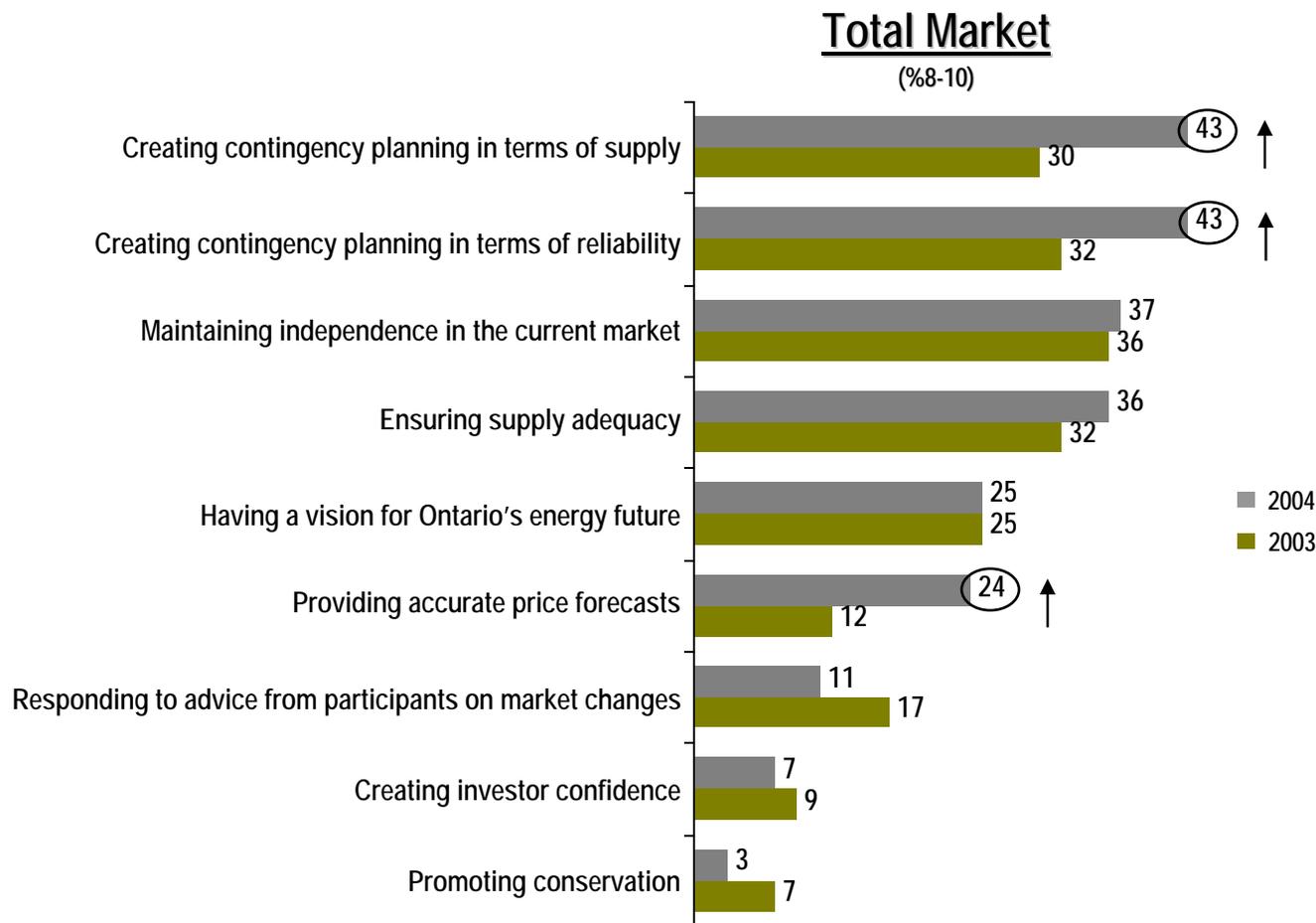


S6Q3. I am going to read you seven current services provided by the IMO to market participants. Please rate the IMO's performance on each of these elements using a 10-point scale where a 10 means excellent and a 1 is poor.

Delivering on Market Operations



- On specific market issues, the IMO gets highest relative ratings for contingency planning (supply and reliability), maintaining independence and ensuring supply adequacy. Lowest ratings are for IMO responsiveness, promoting conservation and creating investor confidence.



S5Q7. How satisfied are you with the IMO's performance on the following elements?

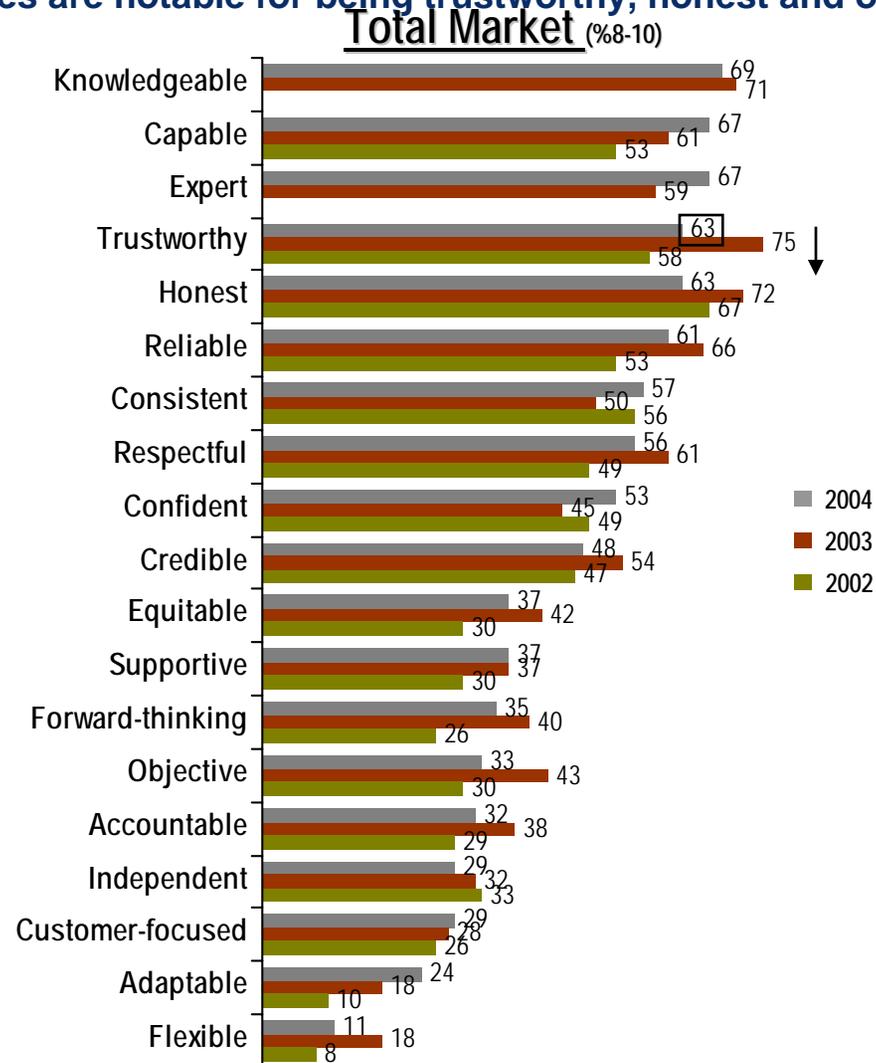
Basis of Lower Market Evaluations



- Supply Adequacy – it is an issue today so it was poorly managed
- Conservation – no evidence from the IMO on any conservation activities
- Investor Confidence- no visibility of IMO actions, not their role, prices are not stable enough, rules keep changing
- Vision –not the IMO's role, this is OPA role; vision yes,control no;there is no stability
- Supply Contingency – not aware of any actions that the IMO takes; it is an issue today
- Reliability Contingency – Hydro One has more visibility; not aware of IMO actions
- Independence – IMO has their own agenda; too much government interference ; listen to generators only
- Price Accuracy – forecasts are not accurate; pre-dispatch and actual to far apart
- Responsiveness- there is no IMO followup; IMO doesn't listen to participants; IMO has a producer bias

Focus on Corporate Values

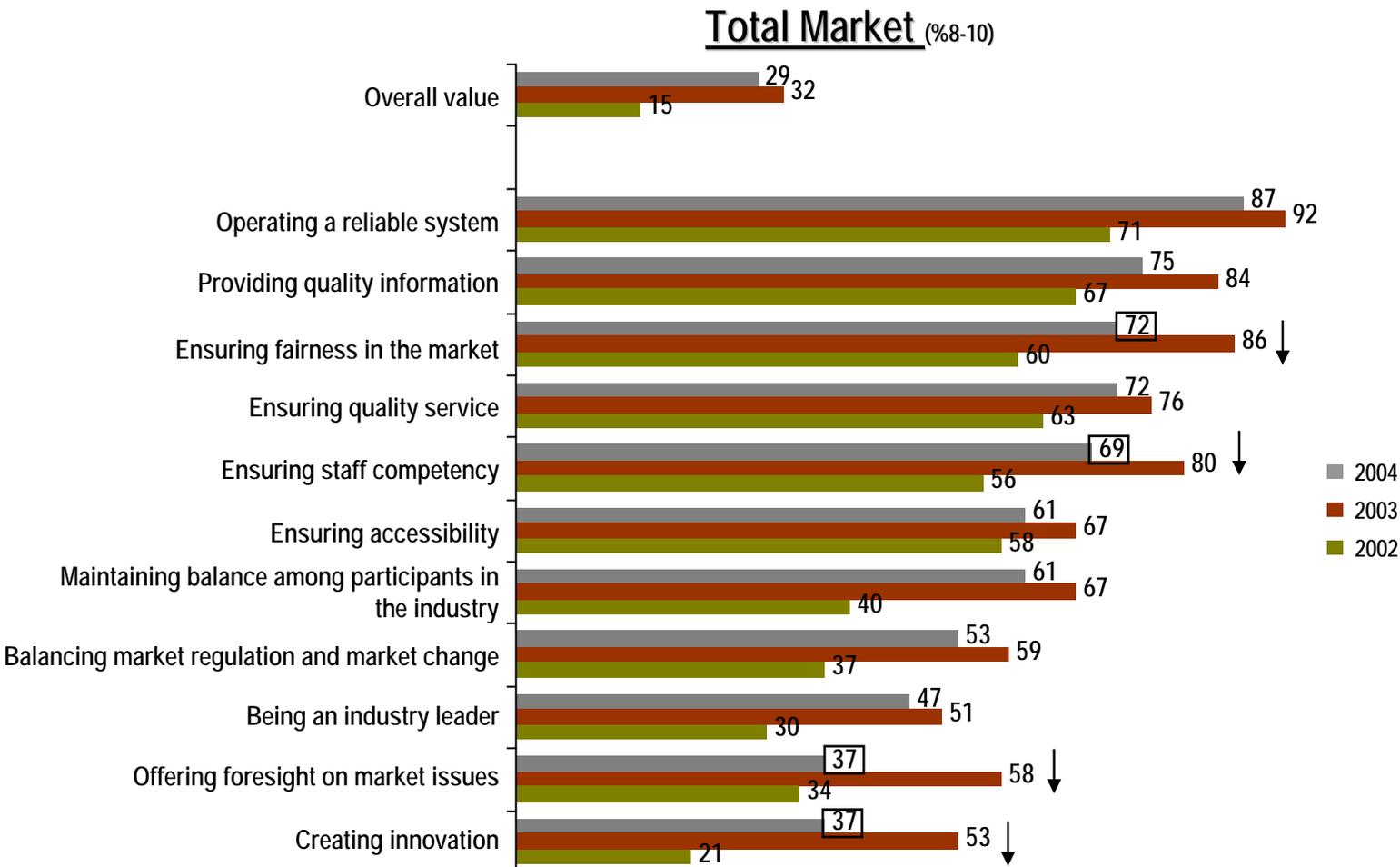
- On a year over year comparison, the IMO gets highest ratings for being capable, expert, trustworthy, honest and reliable. Lowest ratings are for flexibility, adaptability, customer focus and independence. Declines are notable for being trustworthy, honest and objective.



S5Q5. Several key values define the IMO. Please evaluate the extent to which each of the following describes the IMO as a key participant in the Ontario electricity market using a 10-point scale where a 10 means the statement describes the IMO completely and a 1 means it does not describe the IMO at all.

Value for Dollar

- IN terms of delivering value for dollar, participant overall ratings are unchanged from 2003 with 29% rating it 8-10. Highest value is placed on a reliable system, quality information, market fairness and service quality. Of note are declines in the value of market fairness and staff competency although relatively they remain important. Least value is on innovativeness and market foresight.



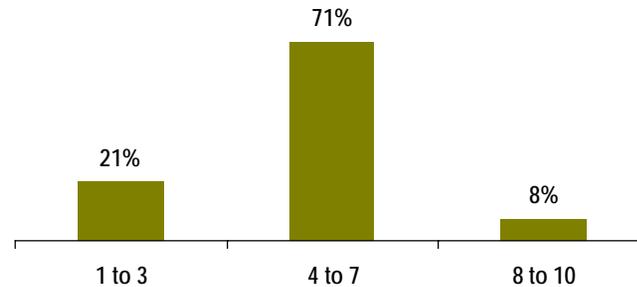
S6Q4. How would you rate the IMO in terms of overall value for dollar? Please rate the IMO using a 10-point scale where a 10 means excellent value and a 1 means poor value.

S6Q5. What value as a participant do you place on the IMO's delivery on the following elements?

Effectively Meeting Participant's Organizational Needs

- While most participants (84%) sense that the IMO effectively meets the needs of their organization, most (71%) rate the IMO's ability to customize their products as limited (4-7). Most feel that IMO fails to understand the details of the participants business and its unique needs.

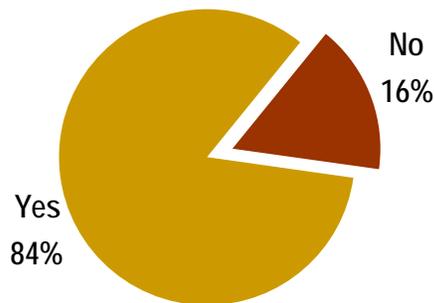
Ability of IMO to Customize Its Products to Meet Business Needs



Average = 4.8

IMO Effectively Meets Needs of Participant's Organization

(%Stating)



What is Missing?



- More familiarity with other jurisdictions
- Less rigid surveillance
- Listen and respond
- Recognize the unique situations of your customer

S5Q10a. Do you feel that the IMO is effectively meeting the needs of your organization?

S5Q10b. What is missing?

S5Q11. What is the IMO's ability to customize its products?

Summary of IMO Performance



- Aggregate ratings of the IMO in 2004 are declining. These measures include overall confidence in the IMO, value for dollar and quality of service.
- Strongest ratings on the IMO are given to its delivery of “reliable supply of electricity, being a critical player in the wholesale market and fully informing participants of market obligations”. “Exceeding customer expectations and ensuring market benefits” remain areas of improvement.
- In terms of business priorities, the IMO is rated strongest on “focusing on its core business” and “being a valuable information source”. Showing flexibility, transparency and simplicity in its operations are seen by participants as unmet needs.
- In terms of actual market operations, the IMO is most acknowledged for efforts around contingency planning for supply and reliability. Solid improvements have been made in “providing accurate price forecasts”. Areas in need of improvement are “creating investor confidence, promoting conservation and responding to participant advice”.
- With respect to corporate values, trustworthiness, honesty and objectivity ratings have declined over 2003. Being able to show flexibility, adaptability and customer focus remain areas that participants rate lowest. The IMO retains strong ratings on its technical skillset ie knowledgeable, capable, expert and reliable.
- Most participants do not see the IMO as being strong in being able to customize its products/services to meet their unique needs – 71% rate it 4-7 on a 10 pt scale.

Relationship with The IMO

Perception of Customer Relationship

- Almost 2 in 3 participants believe that they have a customer relationship with the IMO. While difficult to describe its basis, most feel that the provision of a service for which they pay is the foundation of whether they feel as “a customer”.

Perception of Relationship

(%Stating)



*No significant changes to 2003
(Customer Relationship 71%, Not a
Customer Relationship 29%)

Participant Reactions

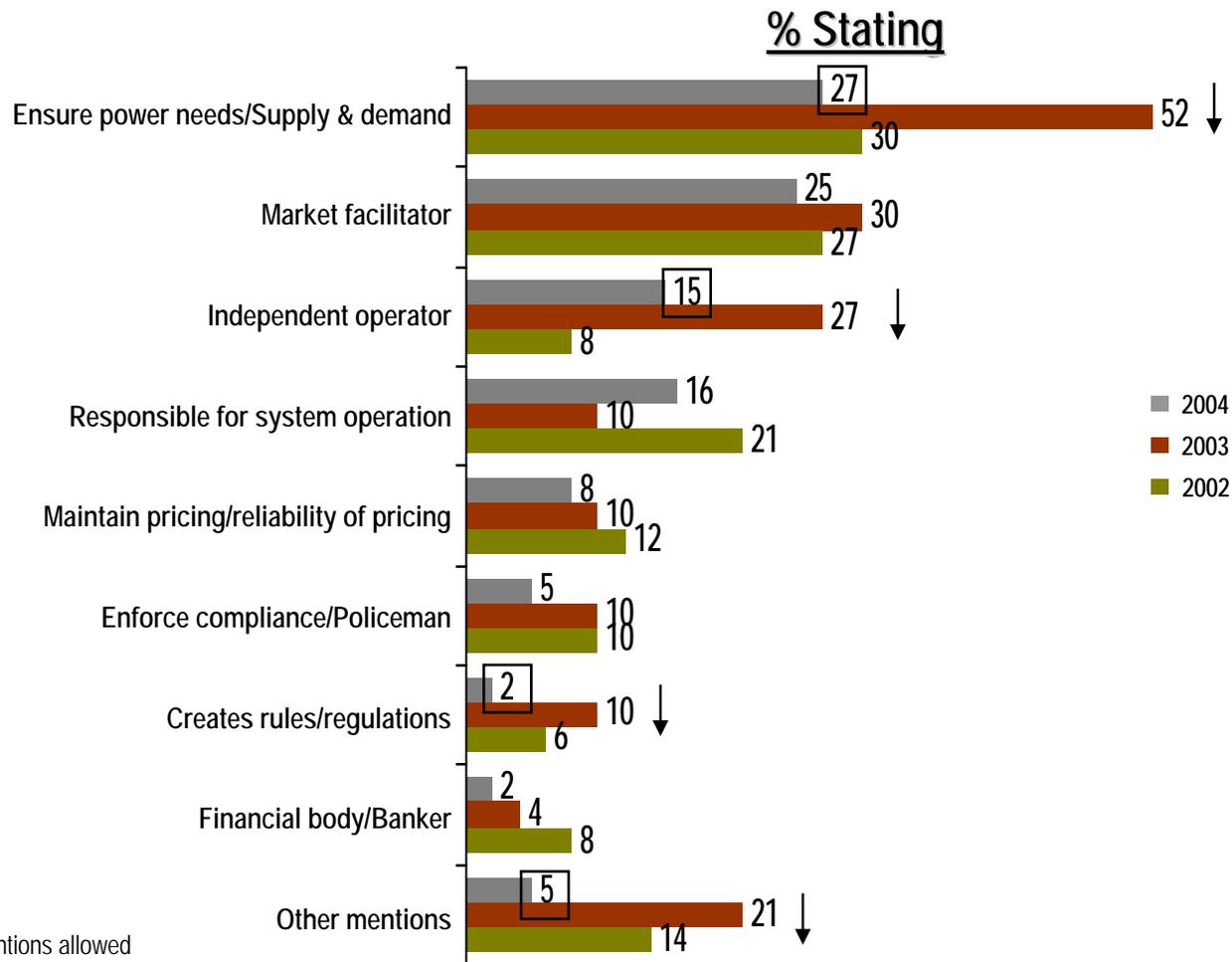


- Positive
 - Deal with IMO staff on regular basis
 - They provide a service we buy
 - We are tied to their grid
 - We pay them
- Negative
 - There is no choice
 - They don't respect me/my business
 - There is no product
 - They don't solicit my business

Unprompted Descriptions of the Role of The IMO



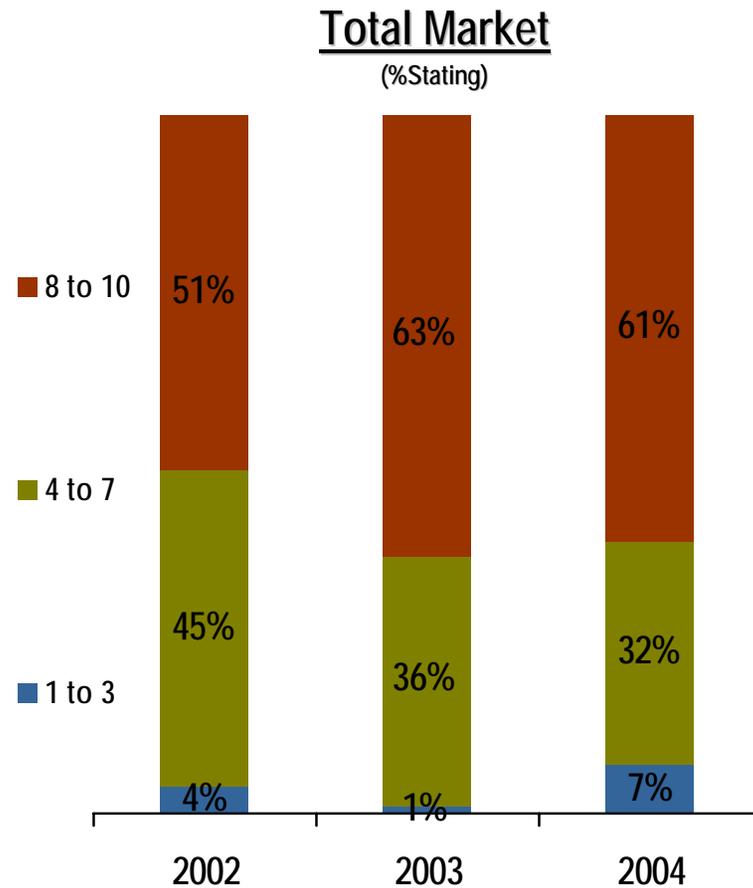
- While there has been some changes in the unprompted description of the IMO's role, it is still principally seen as "balancing supply and demand", "being the market facilitator" and "being responsible for market operation". There has been a decline over 2003 describing the role as "balancing supply and demand".



Overall Relationship with The IMO



- Most (61%) of participants rate their relationship with the IMO at “8-10” which is unchanged from 2003.



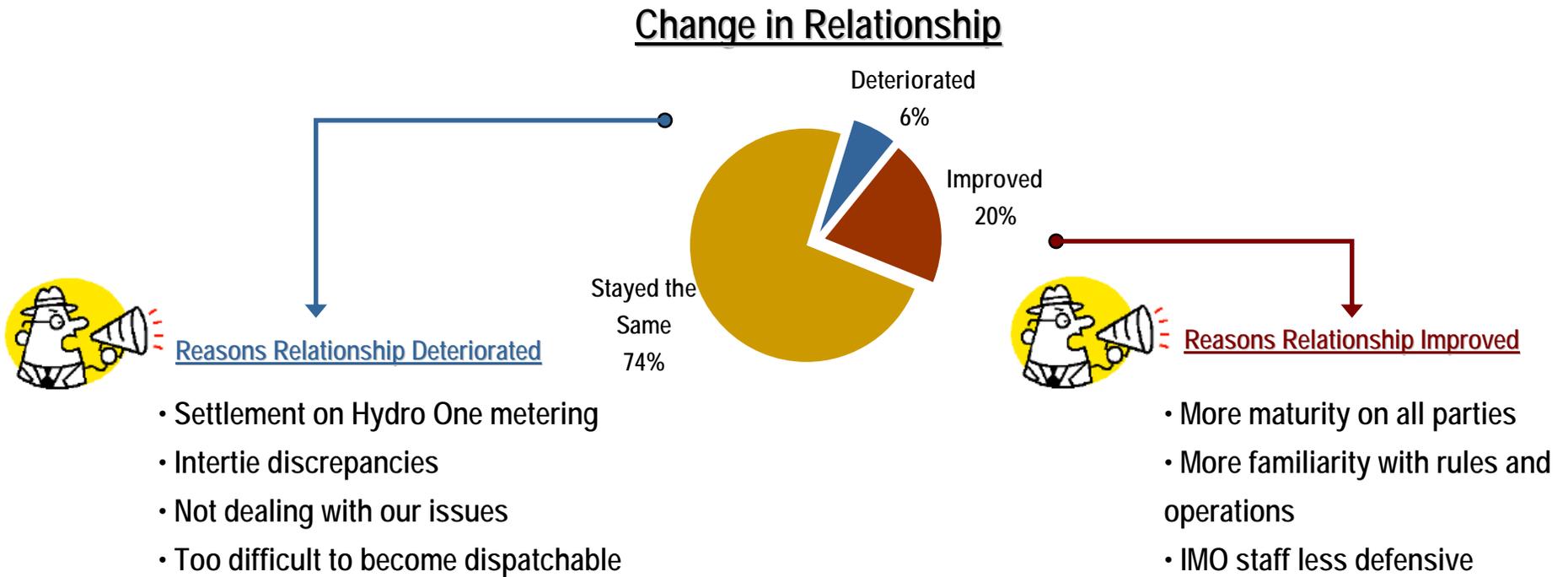
*There are no significant differences among participant classes in 2004

S5Q3. Based on your company's experience, how would you rate your company's overall relationship with the IMO? Please use a 10-point scale where 10 means excellent and 1 means poor.

Change in Relationship Since Market Launch



- Consequently, most (74%) believe that their relationship with the IMO remains unchanged over the past year. If it has improved, it is largely due to more familiarity/communication with each other and a declining IMO defensiveness. If it declined, it tends to be due to issue specific ie Hydro One metering, ability to become dispatchable and intertie discrepancies.

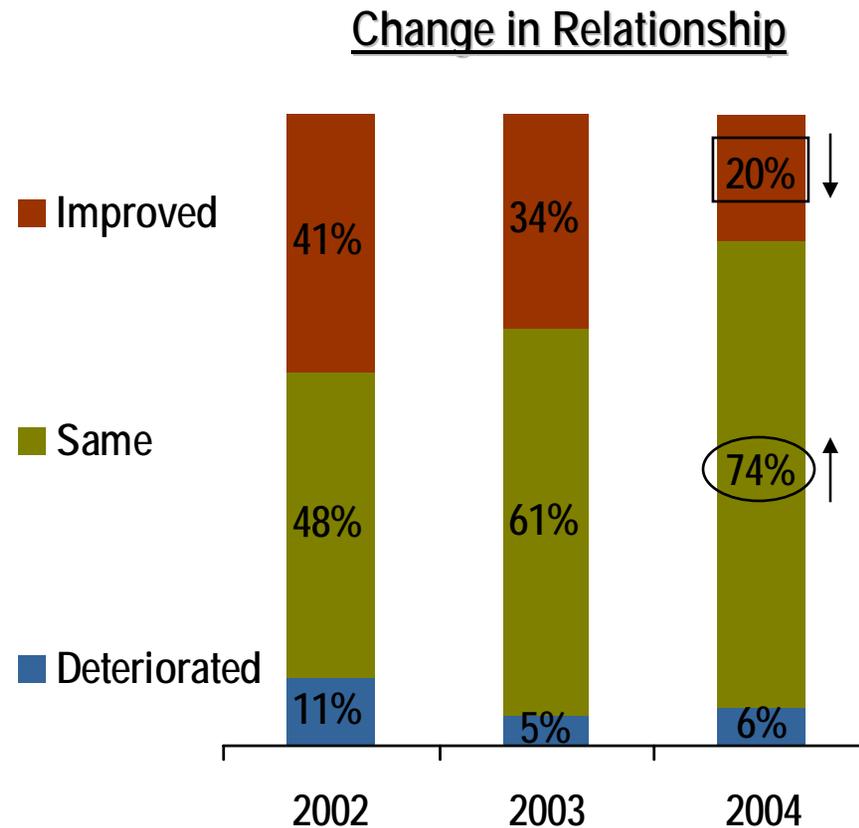


S5Q4a. Would you say that your company's relationship with the IMO has improved, stayed the same, or deteriorated since the market launch?

S5Q4b. Why do you say that? Please explain.

Change in Relationship Since Market Launch

- Overall, participants' relationship with the IMO has stabilized since market launch with 3 in 4 describing it as the "same". This can be contrasted with the high ratings on "improved" that were recorded over the past 2 years.



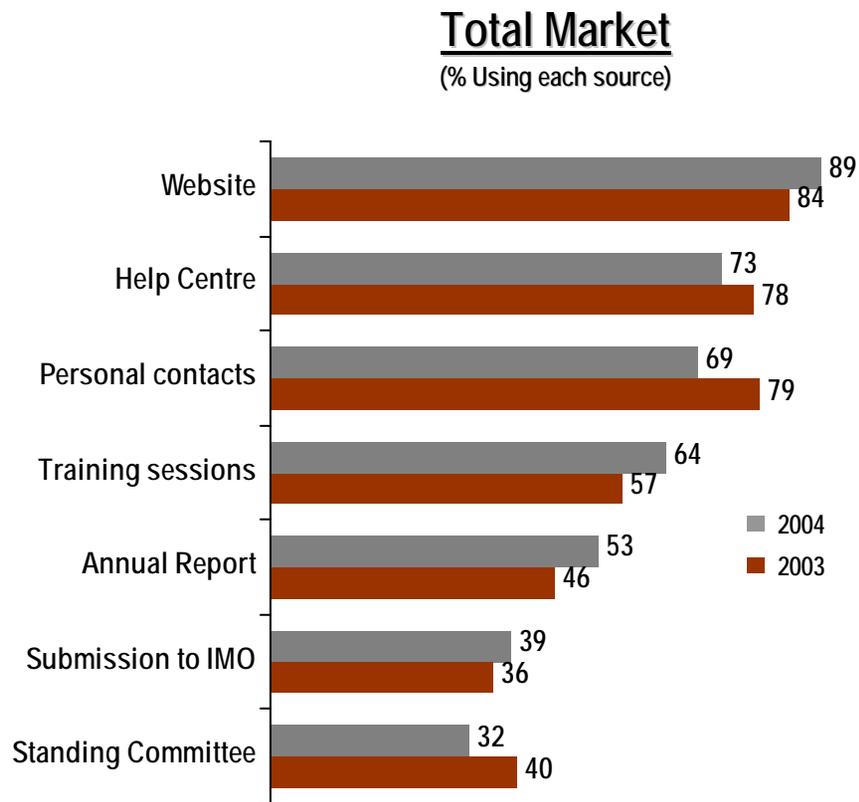
S5Q4a. Would you say that your company's relationship with the IMO has improved, stayed the same, or deteriorated since the market launch?

S5Q4b. Why do you say that? Please explain.

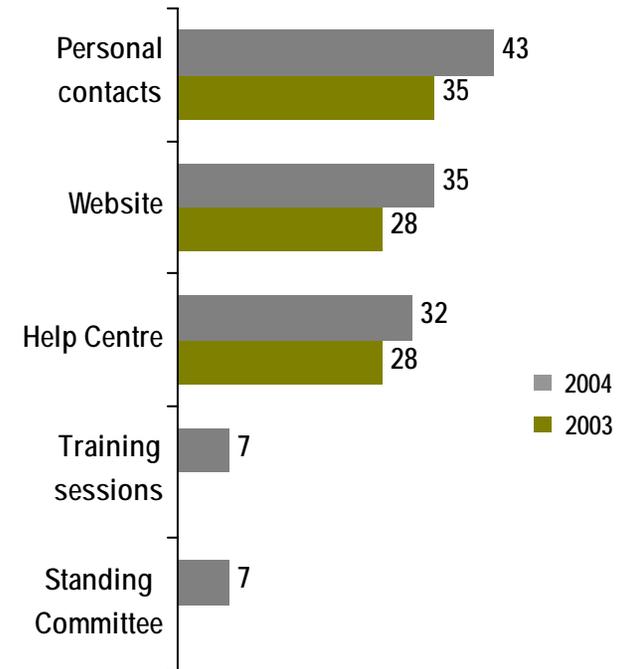
Methods of Communicating with the IMO



- **Methods of communicating with the IMO have remained unchanged over previous years with the website, the help centre and personal contacts being the most frequent methods. These also remain the most preferred means of contact.**



Preferred Method of Contact
(%Stating)

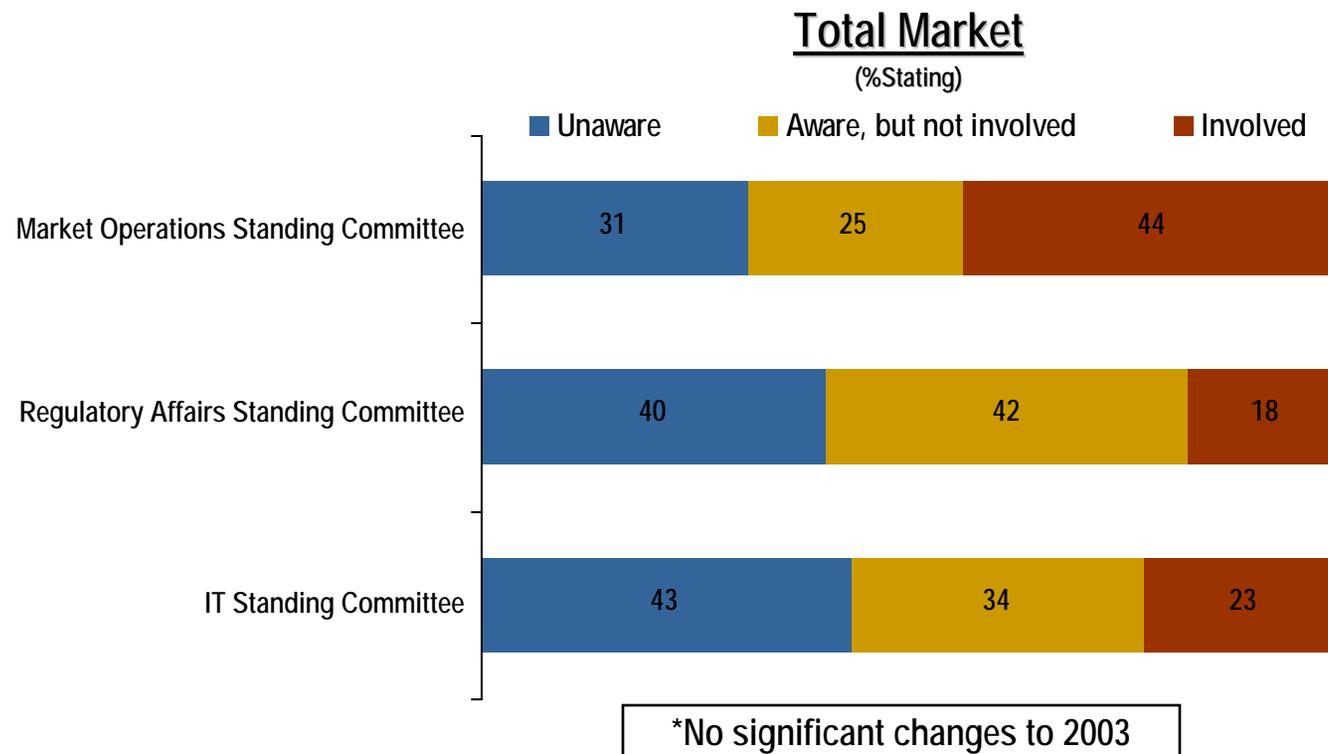


*There are no sig. differences between 2003 and 2004

Involvement in Market Advisory Committees



- Involvement with the various IMO advisory committees remains unchanged with MOSC being the one with the most awareness and/or involvement ((69%). Under half of respondents have not heard of the Regulatory Affairs or IT Committees.



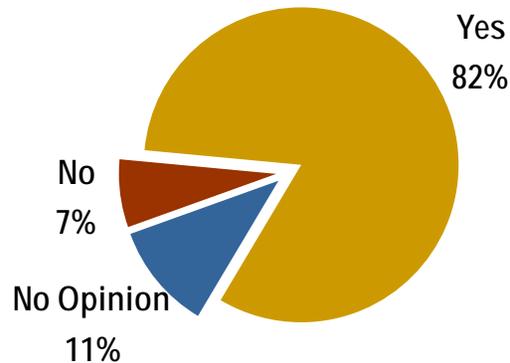
S8Q2a. As you may know, the Market Advisory Committee has expanded to include several Standing Committees and Working Groups in the past 12 months. Are you aware of the...?
 S8Q2b. Do you, or does anyone in your company currently participate in any of these committees?

Sufficient Background to Participate



- The majority (82%) of those involved with the Committees feel that they are given sufficient information. In terms of ways to improve participation, suggestions range from more evidence of how committees actually affect decisions to more “out of Toronto” meetings to more use of video conferencing to voting.

Incidence of Sufficient Background* (%Stating)



*No significant changes to 2003
(Yes 88%, No 12%)

Suggestions for Encouraging Participation



- Evidence of how Committees affect decisions
- Make meetings more accessible/out off Toronto
- More direction on how we can be more effective
- More use of video conferencing/internet
- Move to a voting system for decisions
- Be less defensive,listen to advice
- Think about best use of our time
- Focus on specific issues with clarity
- Involve your US customers

*Among those who participate in at least one Standing Committee

S8Q2c. Do you feel the IMO gives you sufficient background information to participate effectively?

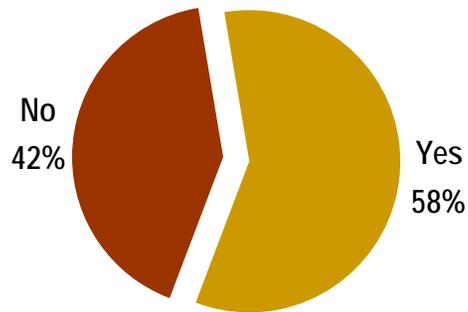
S8Q3. In your opinion, what could the IMO do to encourage more market participants to get involved with these Standing Committees?

IMO's Consultation Process

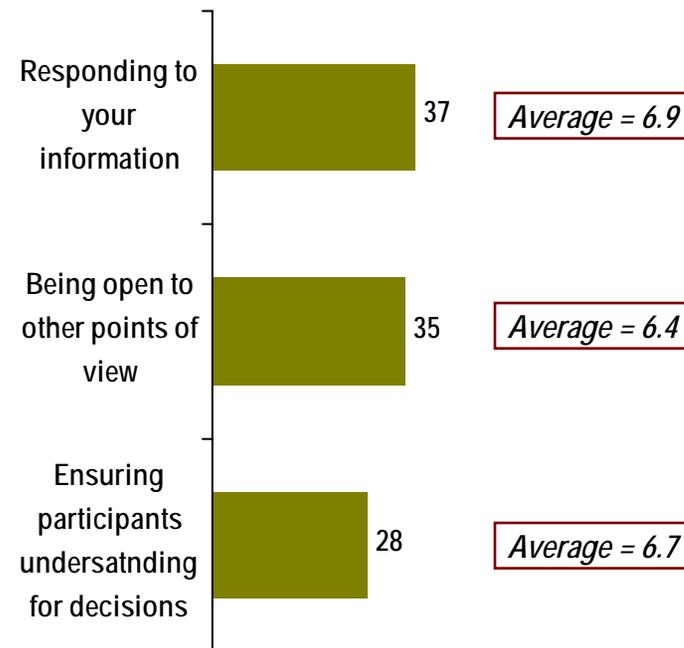


- Just over half (58%) of participants claim to be aware of the consultation program. It is highest among generators (67%) and lowest among wholesale consumers. The top box scores were obtained from 37% of respondents.

Awareness of IMO's Consultation Process
(%Stating)



Evaluation of IMO's Consultation Process*
(% 8-10)



*Among those aware of consultation process
S8Q1a. Are you aware of the IMO's market participant consultation process?
S8Q1b. Rate the IMO's consultation process on the following elements.

Summary of IMO Relationship



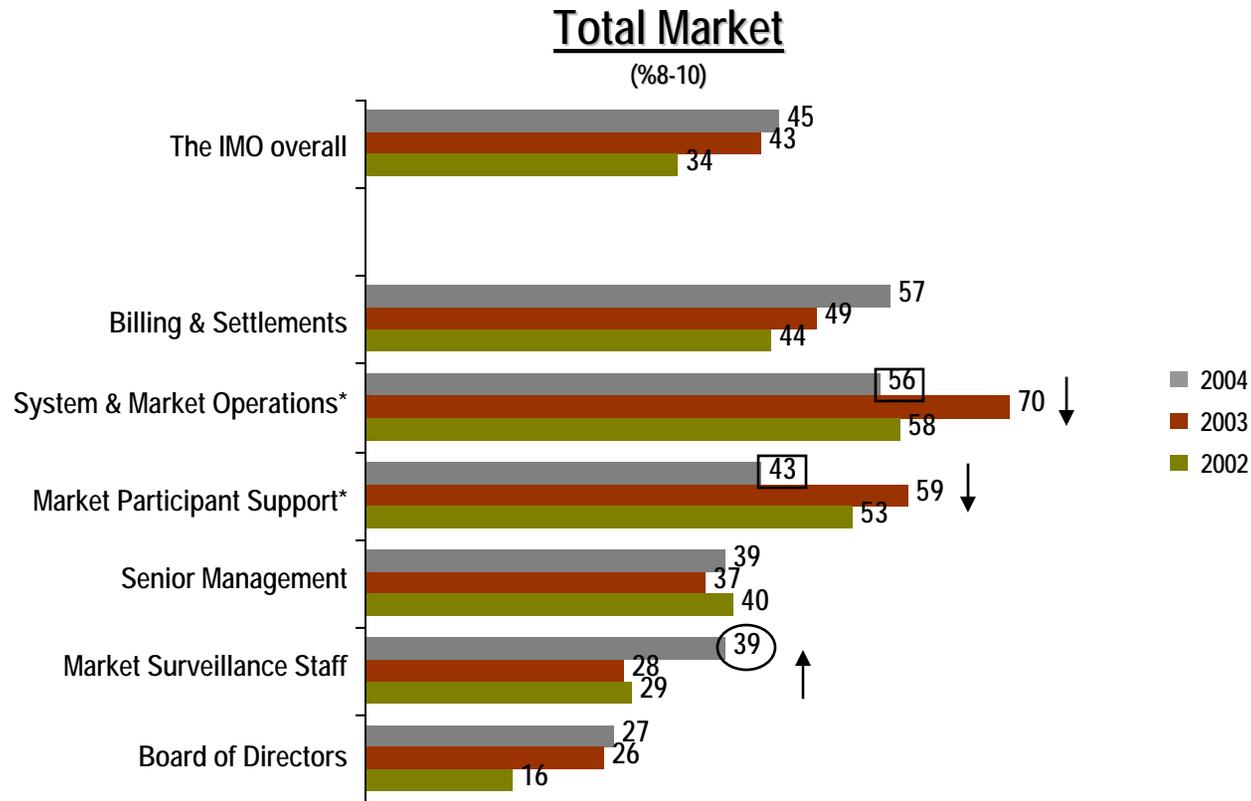
- Approximately 2 out of 3 participants view themselves as customers of the IMO. This view is grounded in the sense the the IMO provides services for which the participant pays.
- The quality of the participant /IMO relationship remains strong and unchanged over 2003. Sixty one percent rate the relationship at 8-10 while 74% feel that it has “stayed the same” over the past year.
- The IMO website, the help centre and personal contacts remain both the most used and preferred methods of communicating with the IMO .
- There has been no change in the number of participants involved with various standing committees. Attendees tend to come from the large organizations and the Market Operations Committee has the highest recognition and involvement.
- Most feel that they have sufficient information with which to participate but this year are more inclined to seek evidence of how the committees actually affect IMO decision making.
- On the IMOs market participant consultation program, 58% claim to be aware of the program (highest among generators and lowest among wholesale consumers). Ratings on the program attributes such as responsiveness, openness and comprehension average 6.6.

Confidence in The IMO

Confidence in Parties Within the IMO



- Overall confidence in the IMO's ability to operate to market remains largely unchanged with 45% rating it at 8-10 in terms of confidence. Within the organization, billing and settlements and market surveillance have made year over year gains. Decline in two other groups may be attributable to a wording change.



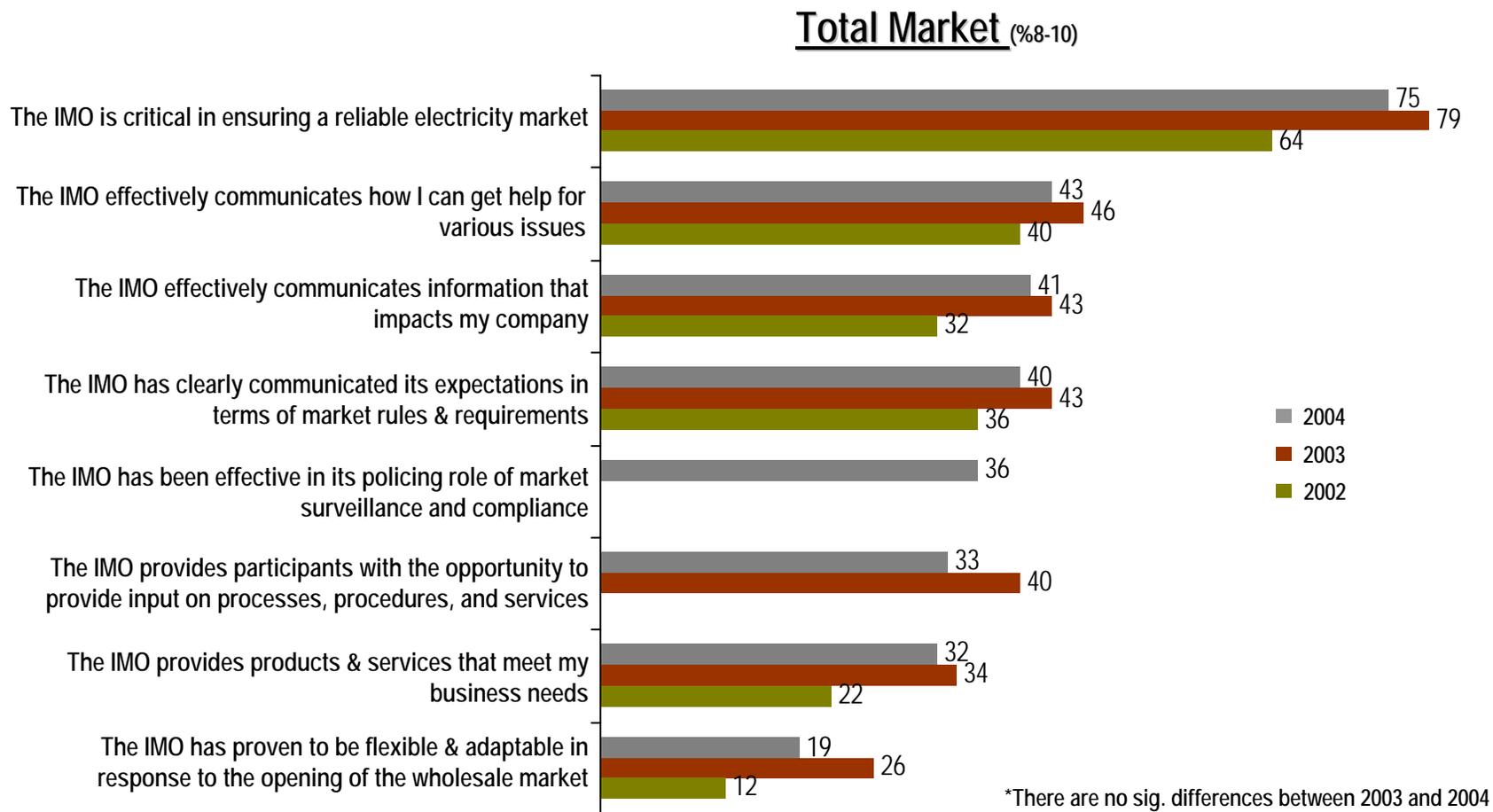
*Wording change in 2004 questionnaire (2003: System Operators, Technical Staff)

S5Q9. How confident are you in different groups within the IMO to effectively operate and oversee the wholesale electricity market in Ontario? Please rate each body of the IMO using a 10-point scale where a 10 means you have complete confidence and a 1 means you are not at all confident.

Setting Future Priorities



- In terms of future directions, participants strongly endorse the IMO's critical role in ensuring a reliable market and being an effective and accessible communication source. Challenges remain in the IMO's ability to provide meaningful involvement opportunities, be flexible and customize its services.



S6Q2. Please rate the degree to which you agree with the following statements about the IMO's delivery on several of the organization's key objectives. Once again, use a 10-point scale where a 10 means you agree completely and a 1 means you completely disagree.

Summary of Confidence in the IMO



- While top box scores for the IMO remain unchanged in 2004 over 2003 (45% rate the IMO at 8-10 on a 10 pt scale), billing and settlements and market surveillance groups have improved their annual participant ratings.
- “System & market operations” and “Market participant support” have shown declines but should be seen in the context of a change in description from 2003. Last year, the former was “system operators” and the latter was “technical staff”.
- In terms of future priorities, 3 in 4 participants see the IMO as “being critical in ensuring a reliable electricity market”. Less strong ratings are given for effective communication with participants. Lowest ratings are for IMO flexibility and adaptability.

Market Evolution

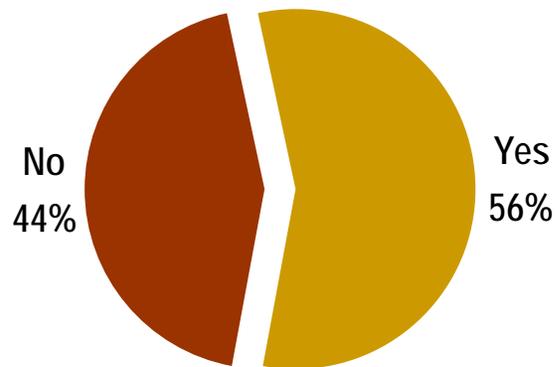
Perceptions of Market Evolution



- The market is seen to be continuing to evolve by a slight majority of participants (56%) with the government's plans for the industry, the move to 2 tier pricing and the generation RFP as leading evidence. Impacts range from the unknown to increased costs to loss of business competitiveness.

Has the Market Evolved?

(%Stating)



*No significant changes to 2003
(No 42%, Yes 58%)

Evidence of Market Evolution

- More stable prices (2 tier)
- More competitors/gen interested
- Gov't has plan- remove subsidies
- Closing of coal plants
- RFP for gen encouraging
- Fixed price more realistic

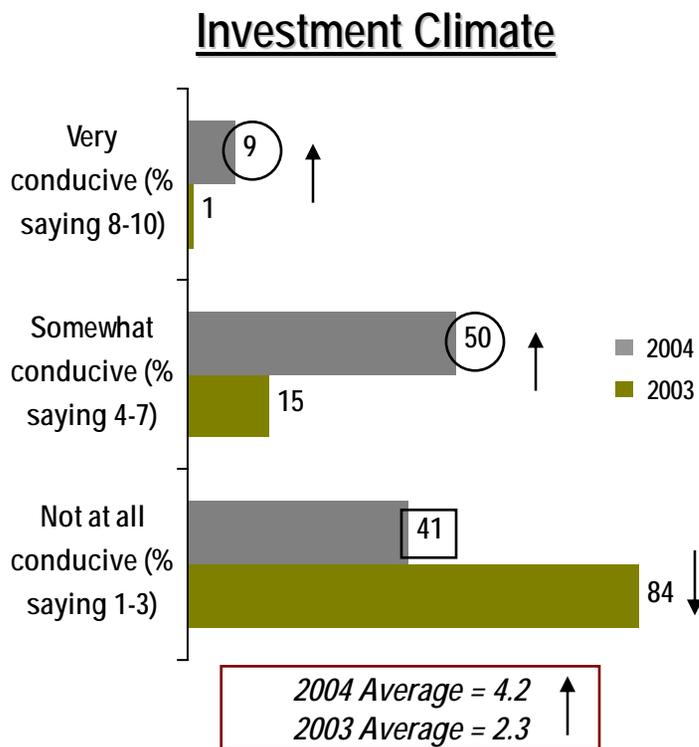
Business Impact of Evolution

- Price increases/reduced profitability
- More paperwork/costs(LDCs)
- Likely close operations
- Less price risk
- Delay capital investment due to price
- No impact/uncertain

S3Q1a. Switching gears for a moment, has the electricity market evolved at all in the past year?
S3Q1b/c. How? How have these changes affected your company's business?

Investment Climate in Ontario Electricity Market

- The investment climate in the Ontario electricity market is seen to have improved over 2003 driven largely by the government's plan to contract for long term generation. Obstacles continue to be the lack of stability in government policy, the dominance of OPG and no guarantee on ROI.



*There are no significant differences among participant classes

Impression of Investment Climate



- Positive Evaluations/Basis
 - gov't will contract generation
 - RFP process interesting
 - more rate stability/electricity cheap
- Negative Evaluation/Basis
 - No clarity of plan /policy
 - Too much gov't instability
 - OPG too dominant
 - Future of nuclear uncertain
 - Stranded debt too high
 - No guarantee on returns/investment
 - Incentives not conducive

S3Q10a. How would you describe the investment climate in the Ontario electricity market? Use a 10-point scale where 10 means it is very conducive to investment....

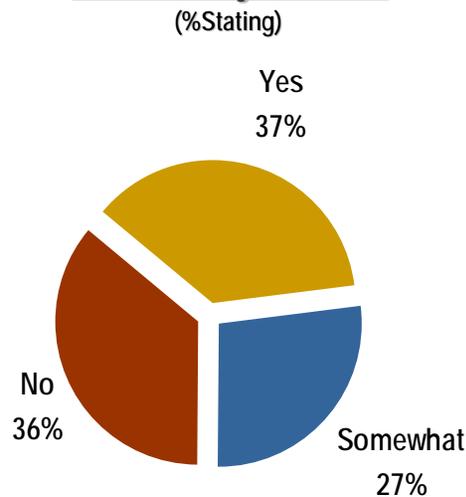
S3Q10b. Why do you say that?

Does a Wholesale Market for Electricity Exist?

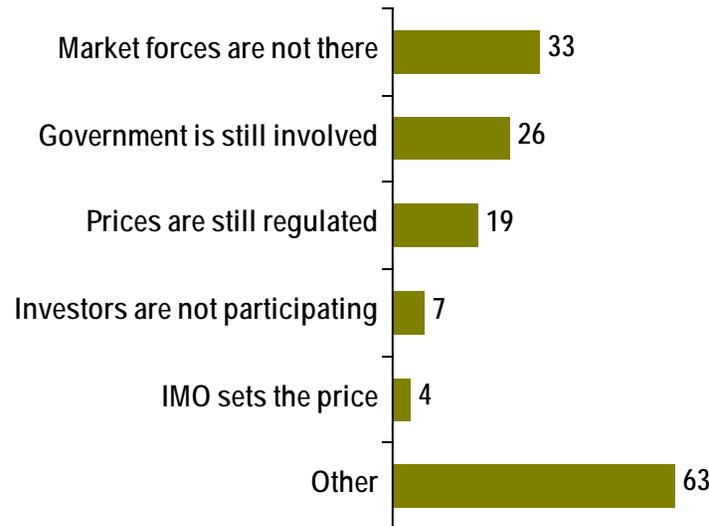


- Only one in three participants believe that a true wholesale electricity market exists. In terms of what is missing, the “other” category relates to the failure to reduce OPG market power, lack of liquidity, major players not bidding and a bias to large consumers. Most believe that the ability to contract, the IMO infrastructure and the settlement process are working.

Does a Wholesale Market for Electricity Exist?



What is Missing? (%Stating)



What is working?



- IMO infrastructure is in place
- Ability to bid/contract
- Large consumers only ones to get price benefit
- Forward market has some liquidity
- Short term supply/demand good
- Reliable delivery/ hourly pricing
- Settlement process in place
-

S3Q11a. In your opinion does a wholesale market for electricity exist?

S3Q11b. What is missing?

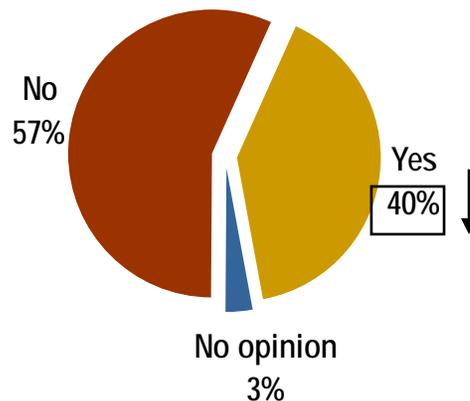
S3Q11c. What features of the wholesale market are working?

Do Participants Have an Effective “Voice” with the IMO?

- While most believe that they do not have an effective voice in market evolution, they tend to cite as reasons the fact that they are a small player and a sense that the Government and IMO have preset agendas. Many look to Associations to speak on their behalf.

Effective Voice Regarding Evolution?

(%Stating)



2003 Ratings

Yes 53%

No 47%

Suggestions for Improvement*



- Company is too small to be active (limited resources)
- More committees focused on specific issues
- Work through industry associations
- More use of the IMO reps
- More clarity on expectations of participation
- Willingness to hear participant needs/issues
- Need to hear from smaller players

*There are no significant differences among participant classes

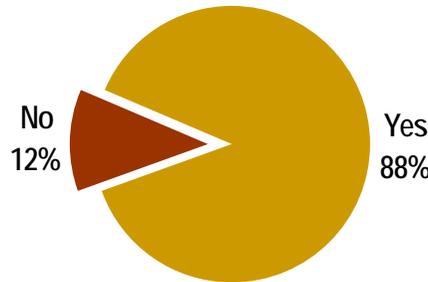
**Among those who do not believe they have an effective voice
S3Q13a. Do you believe your company has an effective voice with the IMO in the evolution of the electricity market?
S3Q13b. How could this be improved?*

Ability of Participants to Act as Advocates for Market

- A strong majority of participants believe that they can act as advocates for the market. This is driven by a sense that they know the impact of market rules/operations the best and have the largest stake in a successful market. Impediments tend to be a lack of listening among decision makers and limited participant resources to devote to the subject.

Can Participants be Advocates

(%Stating)



*No significant changes to 2003
(No 10%, Yes 90%)

Why?



- They know the impact of rules on business
- They have biggest stake in market success
- They can point out benefits of the market
- They can influence decision makers
- They can educate smaller players

Why Not?



- Government and /or IMO don't want to listen
- They don't have knowledge /resources to dev
- IMO has their agenda

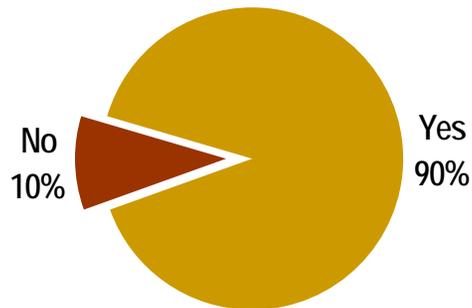
IMO's Proposed Day Ahead Market System



- Most participants (90%) are aware of the IMO plan for a day ahead market with 70 % expressing a level of favourability. Most favourable are the wholesale sellers while distributors are least supportive.

Awareness of Day Ahead Market

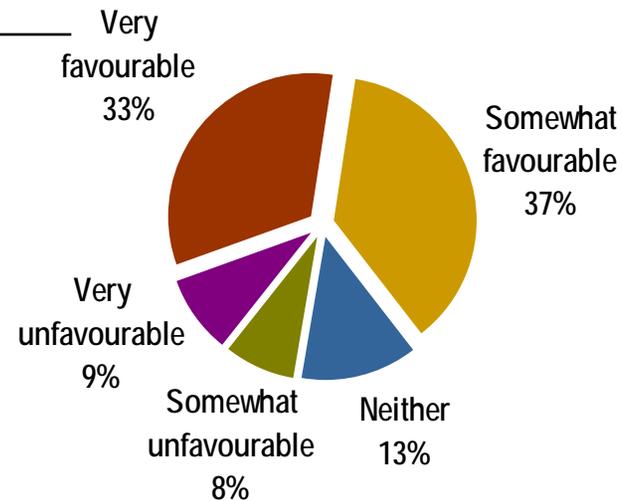
(%Stating)



*Distributors (100%) are significantly higher on Awareness than Wholesale Consumers (79%) and Financial Market Participants (88%)

Favourability towards Day Ahead Market

(%Stating)



*Wholesale Sellers (67%) are significantly higher on 'Very Favourable' than Distributors (27%)

S3Q14. Have you heard of the IMO's proposed Day Ahead market?

S3Q15. What is your opinion of the day ahead market?

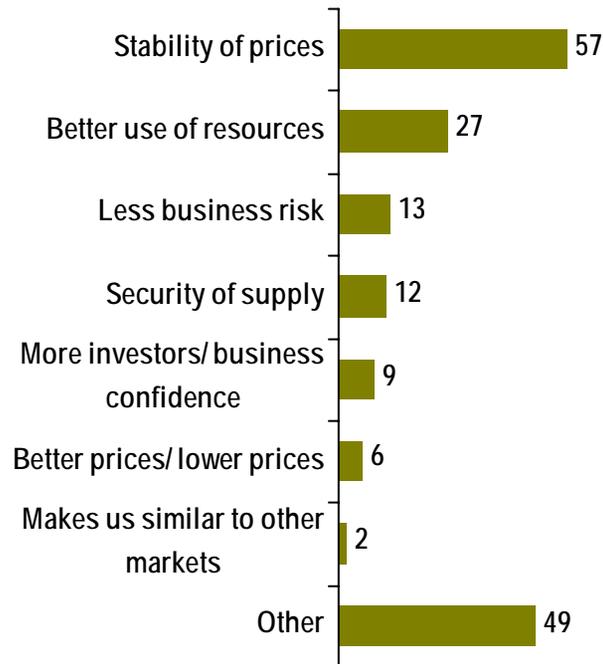
IMO's Proposed Day Ahead Market System cont.



- Strengths of DAM tend to be stability of prices and improved use of resources. “Other” positives tend to be better planning/price signals and more visibility to pricing/responsiveness. While many did not see risks, those that did tended to cite fears of IMO complexity/overdesign, mandatory vs voluntary, differences between forecast and actual prices, price hedging and credibility of price information.

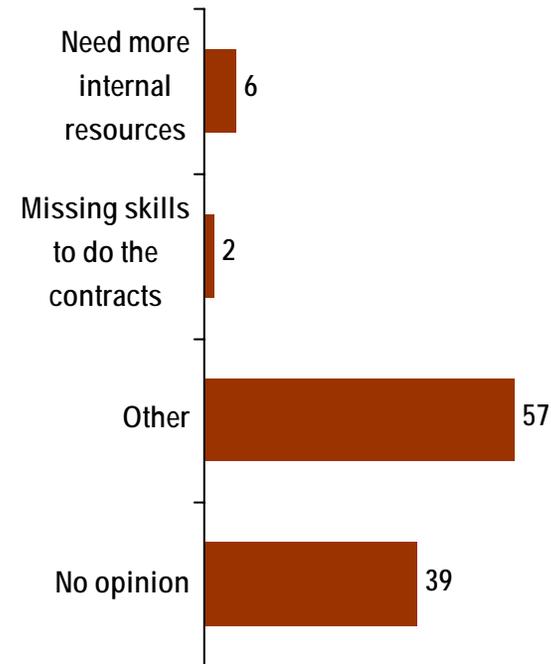
Perceived Strengths of Day Ahead Market

(%Stating)



Perceived Risks of the Day Ahead Market

(%Stating)



S3Q16. What could you foresee being the strengths of the Day Ahead market?

S3Q17. What are the risks of moving towards a day ahead market?

Summary of Market Evolution



- **Most participants (56%) believe that the Ontario electricity market continues to evolve. Evidence tends to be the change in electricity pricing, the Provincial Government legislative changes and the RFP for generation.**
- **The investment climate has improved over 2003 but remains relatively poor. Issues continue to be lack of certainty on government involvement, OPG dominance and a general lack of stability.**
- **While 1 in three participants believe that a wholesale market for electricity does exist in Ontario, the belief/evidence tends to relate to the IMO infrastructure, the ability to buy/sell and contract. Impediments are the lack of major market players to create competition and government involvement ie pricing caps.**
- **Most participants (57%) do not believe that they have an effective voice with the IMO in market evolution. Thus belief is grounded in a view that individual participants are too small to be heard/have an effect and a perception that the IMO and the Government may be pursuing their own agenda.**
- **Most (57%) believe that some participant classes do have undue influence in IMO decision making. The groups cited are either generators or wholesale consumers.**
- **Most (90%) have heard of plans for a day ahead market and 7 in 10 are generally favourable. Most believe that it will lead to better prices and use of resources. Those that cite risks tend to focus on a fear that the IMO will make it overly complicated and how to manage differentials on actual vs forecast prices.**

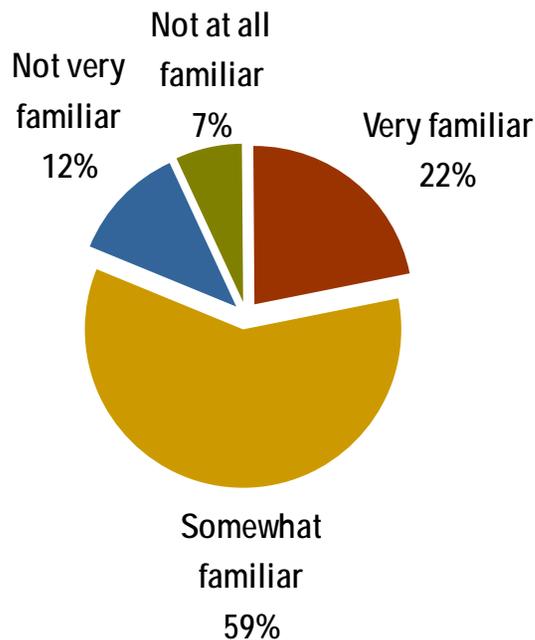
Focus on the Ontario Electricity Restructuring Act – Bill 100

Familiarity and Perceived Objectives of Bill 100

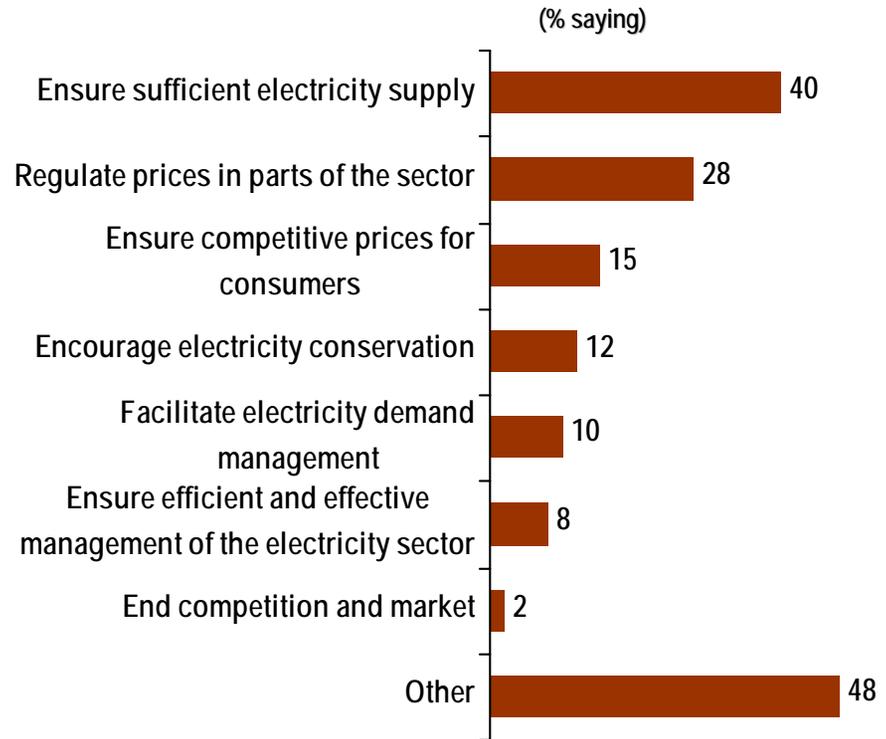


- Eighty-one percent of participants claim to be “somewhat or very” familiar with Bill 100. Most see the legislation objectives as being either securing supply or regulating prices. Among the “other” mentions are creating market stability, closing coal plants, better environmental planning, achieving more stable prices and strengthening the OEB.

Familiarity with Bill 100



Perceived Objectives of Bill 100



S3Q2. How familiar are you with Bill 100?

S3Q3. What do you believe are the objectives of this proposed legislation?

Impact of Bill 100 on Market Participants & Business



Impact on Market Participants



- More work and bureaucracy
- Higher and stable prices
- Drive business out /uncertainty
- Power struggle of OPA,IMO,OEB
- Heritage assets will dominate market/price
- More security of supply/reliability
- Generators will have long term contracts
- More attention to conservation(LDCs)

Impact on Participant's Business



- More clarity of LDC role
- More costs/less profitability
- Ontario business risk high
- Push conservation(LDCs)
- Impact investment plans(uncertain)
- Don't know

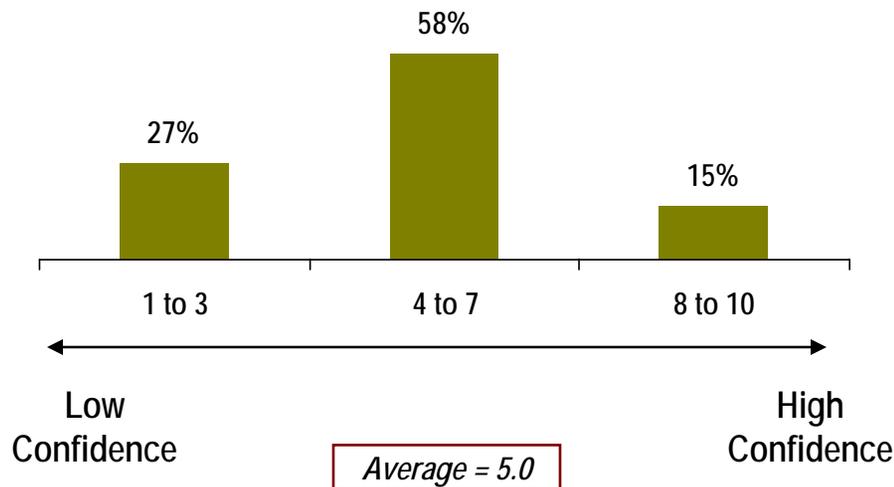
Confidence in Bill 100 Creating Market Stability



- While most have mediocre confidence (58% rate it 4-7) in the ability of the government plan to create stability for participants, the majority (69%) see it as a move back to central planning as opposed to a market.

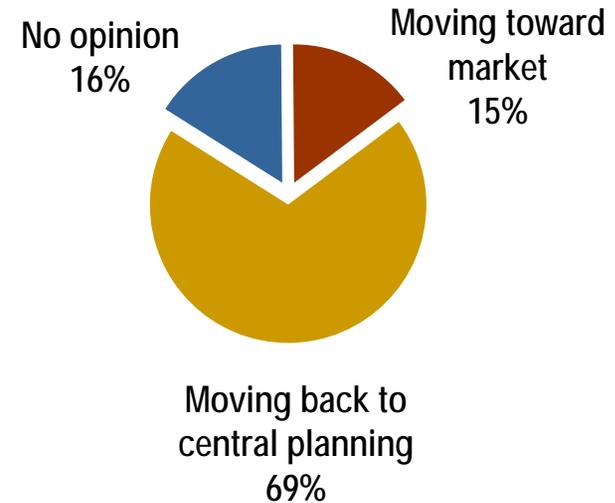
Confidence in Bill 100

(%Stating)



Industry Movement under Bill 100

(%Stating)



S3Q7. How confident are you that the plan laid out by Bill 100 will create market stability?

S3Q8. With your understanding of Bill 100, where do you see the industry moving?

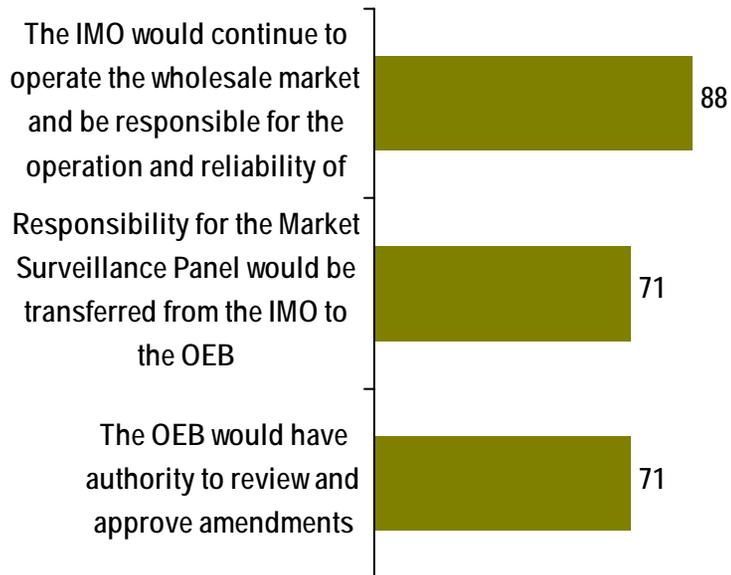
Awareness of IMO Changes Under Bill 100



- While most are aware of the changes as they affect the IMO, there is positive assessments of the changes. Some are concerned about the OEB and there ability to obtain the necessary skillset and to avoid “micro managing” the industry.

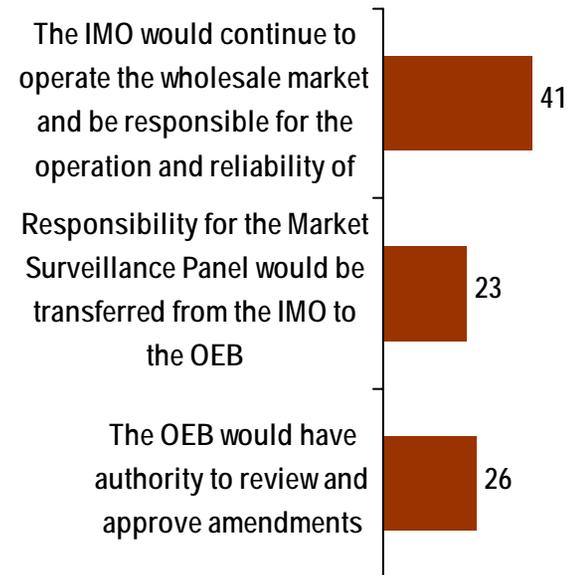
Awareness of Changes

(% saying)



Opinion of Changes

(% 8-10)



S7Q1a. Are you aware that...?

S7Q1b. On a 1-10 pt. scale rate your opinion of this change. 1 means your opinion is very unfavorable and 10 means your opinion is very favorable.

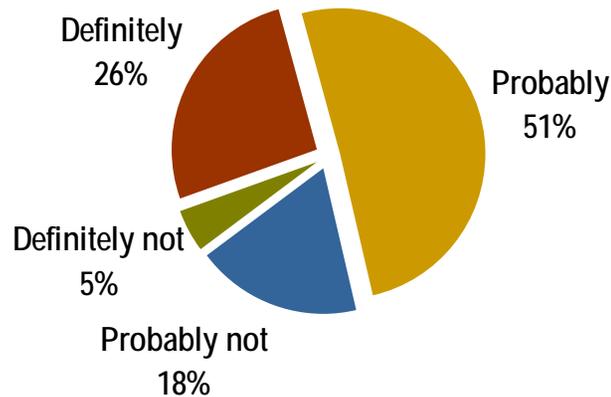
IMO an Advocate for the Market Under Bill 100



- The majority believe that the IMO can and should be able to act as an advocate for the electricity market. 45% feel that the IMO “definitely should be an advocate owing to their knowledge of market design, operations and participant needs.

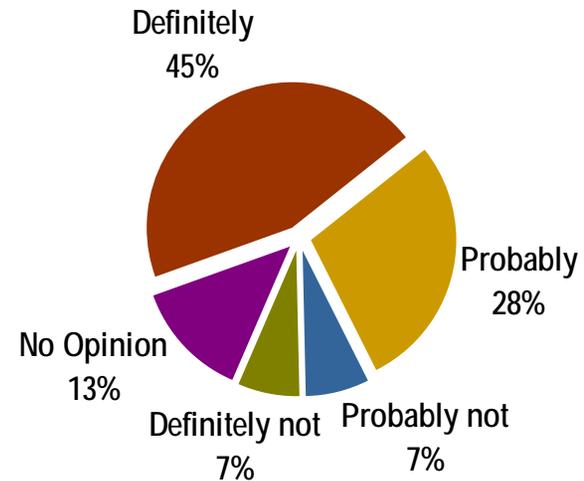
IMO as an Advocate under Bill 100?

(%Stating)



Should the IMO Act as an Advocate?

(%Stating)



S7Q2a. Under Bill 100 will the IMO still be able to act as an advocate for the market?

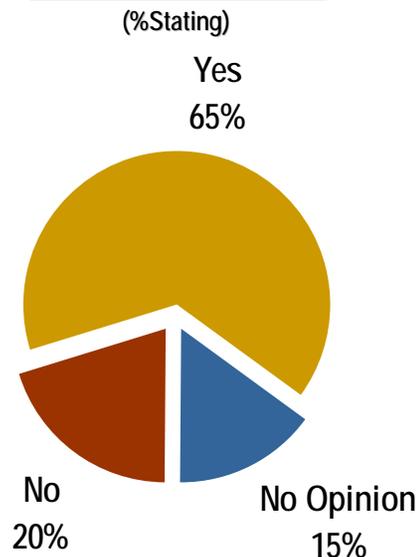
S7Q2b. Should the IMO be able to act as an advocate for the market?

IMO's Priorities Change Under Bill 100



- Almost 2 in 3 participants believe that the IMO's objectives/priorities will be different under Bill 100. The principal changes will be a move to short term focus and greater emphasis on market operations as opposed to design or surveillance. They also expect a reduction in independence and increased accountability.

Will Priorities of the IMO be Different Under Bill 100 ?



How so?*



- More focus on short term
- Less market management, more relationship with oversight bodies
- Less independence from OEB
- More focus on demand, supply and pricing
- Less focus on policing, more on operation
- Less strategic influence, goes to OPA
- More accountability, less independence
- Focus on system, not market operations
- More focus on supply/demand, less on rules

*There are no significant differences among participant classes

**Among those saying that priorities will change
S7Q3a. Do you feel that the priorities will be different under Bill 100?
S7Q3b. How so?*

Summary of Bill 100



- Most participants (59%) have some degree of familiarity with the new legislation –Bill 100. Perceived objectives are mixed and range from “supply security “ to “price regulation” to a phase out of coal generation.
- The majority of participants believe that the outcome of the will be higher prices/costs.
- Recognizing the levels of uncertainty that has existed in the Ontario electricity market for some time, participants rate their overall confidence in the new legislation to create stability for participants at 5.0. The majority (69%) see the direction as moving back to central planning as opposed to a market model.
- The majority of participants are aware of the legislative changes on the role of the IMO and generally support the direction.
- While fewer (26%) believe that the IMO will “definitely” be an advocate for the market post Bill 100 ,a larger group (45%) believe that it should be an advocate again reflecting its relatively higher knowledge of the market and its impact on participants.
- Two in three participants believe that the IMO priorities will be different with Bill 100. They take the view that the organization will focus more on short term and operational aspects and less on planning, policing and market design.

Conservation and Demand Management

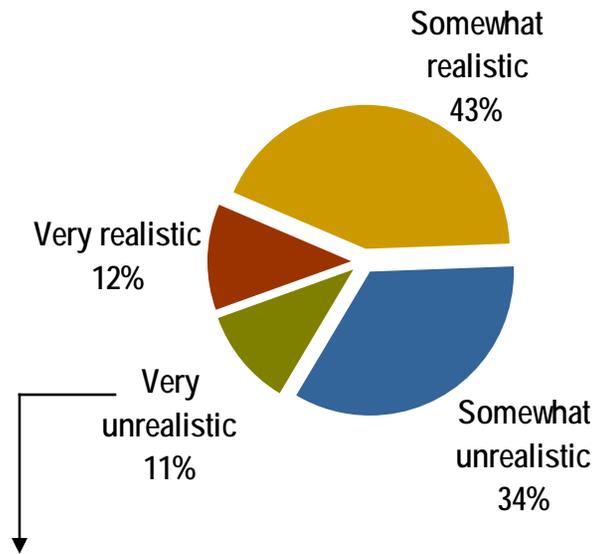
Electricity Demand Reduction & Management



- Views on the reality of the Government’s conservation targets are evenly divided with 55% sensing they are realistic while 45% feel that they are unrealistic. Over half (56%) believe that conservation will be a stronger priority for their company. Strongest are the views of LDCs ,wholesale consumers and retailers.

Electricity Reduction of 5% under Bill 100

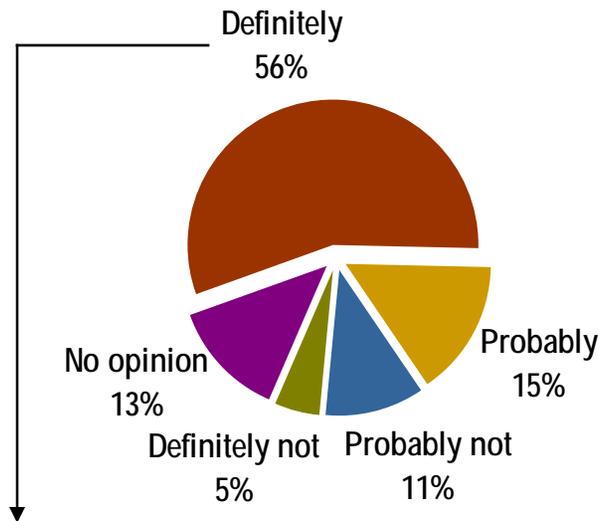
(%Stating)



*Transmitters (67%) are significantly higher on ‘Very Unrealistic’ than Distributors (9%) and Wholesale Consumers (14%)

Energy Management a Corporate Priority?

(%Stating)



*Generators (31%) are significantly lower on ‘Definitely’ than Distributors (61%), Wholesale Consumers (62%) and Retailers (75%).

S4Q1. Under Bill 100 the target is to reduce electricity demand by 5% by 2007. Is this realistic?

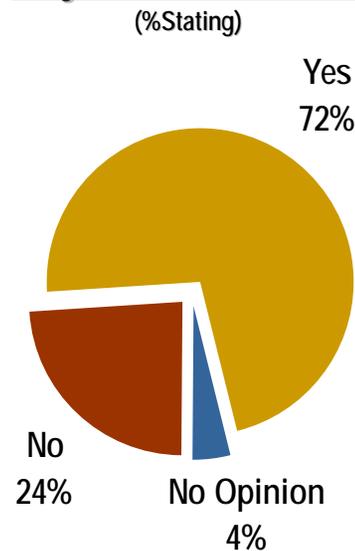
S4Q2. Do you foresee energy management becoming a corporate priority?

Energy Conservation



- While almost 3 in 4 participants claim to have already invested in conservation, the types of actions tend to relate to equipment/process upgrades, load shifting, plan development, hiring of expertise ie audits and undertaking pilot projects.

Has Participant's Organization Invested in Any Conservation?



What Initiatives were taken?*



- Equipment/process retrofits
- Assessing distributed generation potential
- Lighting retrofit
- Pilot projects on load control
- Shift production (time of day)
- TDRP with the IMO
- Hired staff to develop DSM plan
- Hired technical consultants to do audit
- Home audits for employees
- Obtained ISO registration
- Power Smart for customers

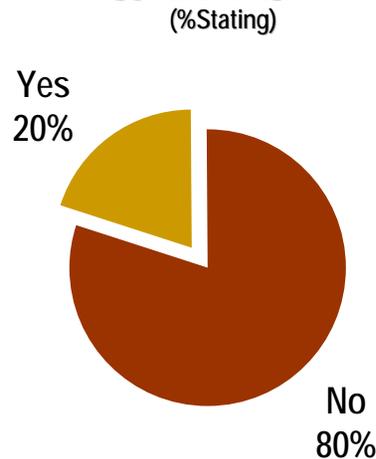
*Among those who invested in any conservation
S4Q3a. Has your organization invested in any conservation or energy management initiatives?
S4Q3b. What are some of the initiatives?

IMO As a Source of Information on Energy Management

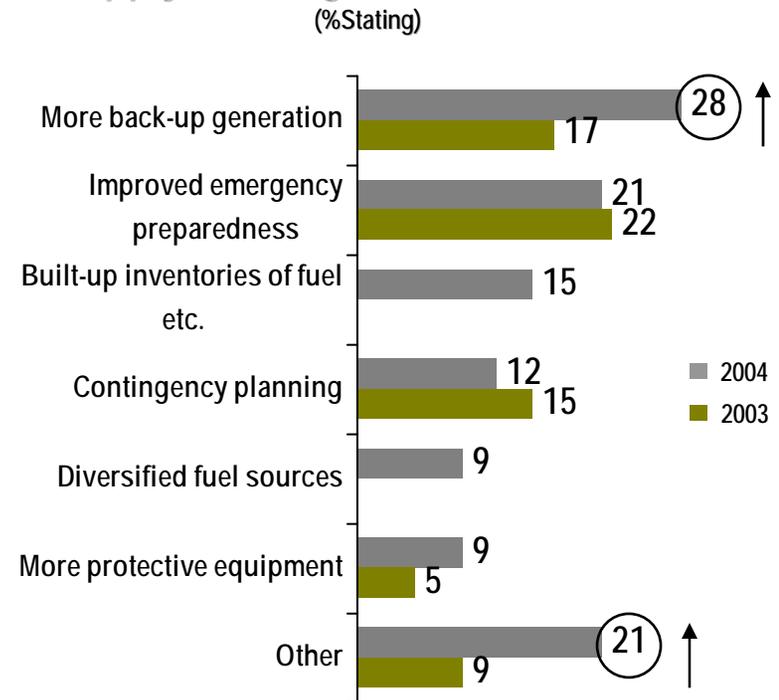


- Most (80%) do not see the IMO as a source of conservation information. In terms of planning for supply shortages, more participants claim to have acquired back up generation, built up fuel inventories and looked a long term contracts.

IMO a Source of Information On Energy Management?



Supply Shortage Protection Plans



S4Q4. Do you look to the IMO as a source of information on energy management?

S4Q5 What has your company done to be protected from supply shortage?

Summary of Conservation

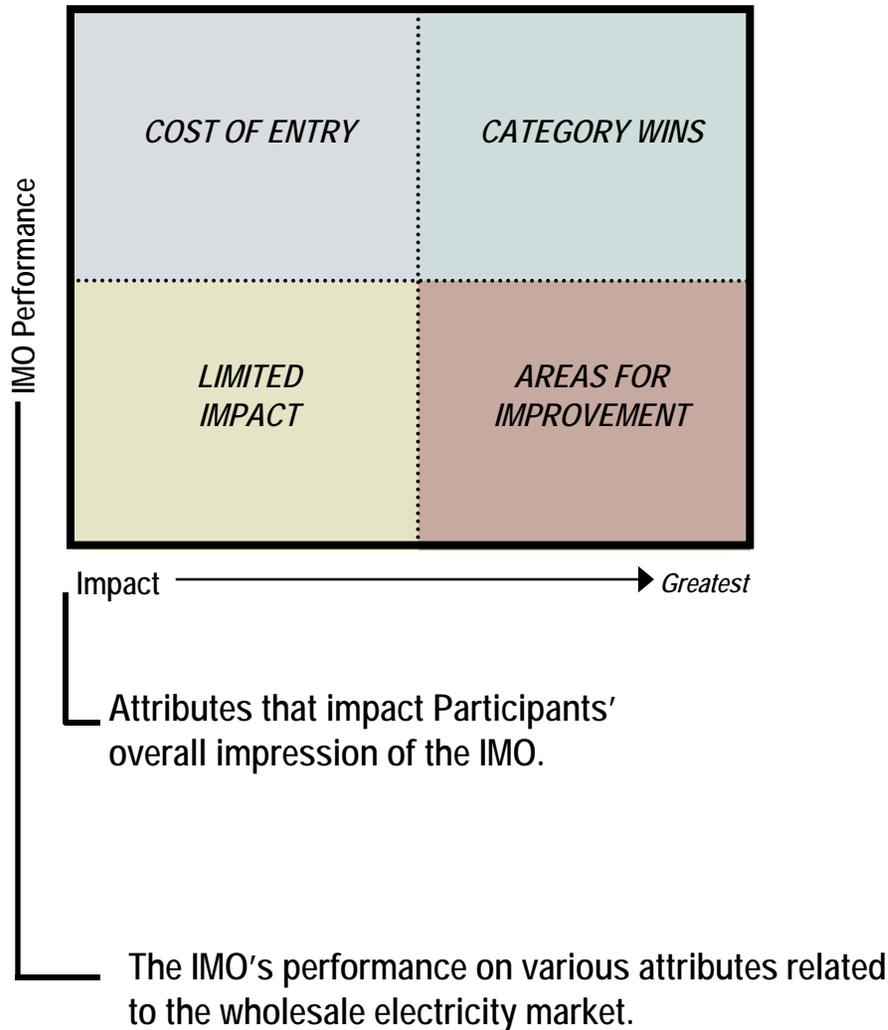


- Participants are divided on the realism of the government's targets for conservation –55% see them as realistic while 43% feel they are unrealistic.
- Over half (56%) believe that conservation will “definitely” be a priority for their organization in the future. This is in addition to the 72% of participants who claim to have already undertaken “conservation initiatives.
- Most (80%) do not see the IMO as a source of energy management information

A Closer Look at Priorities & Perceptions

- Multivariate Analysis -

Impact vs. Performance Maps



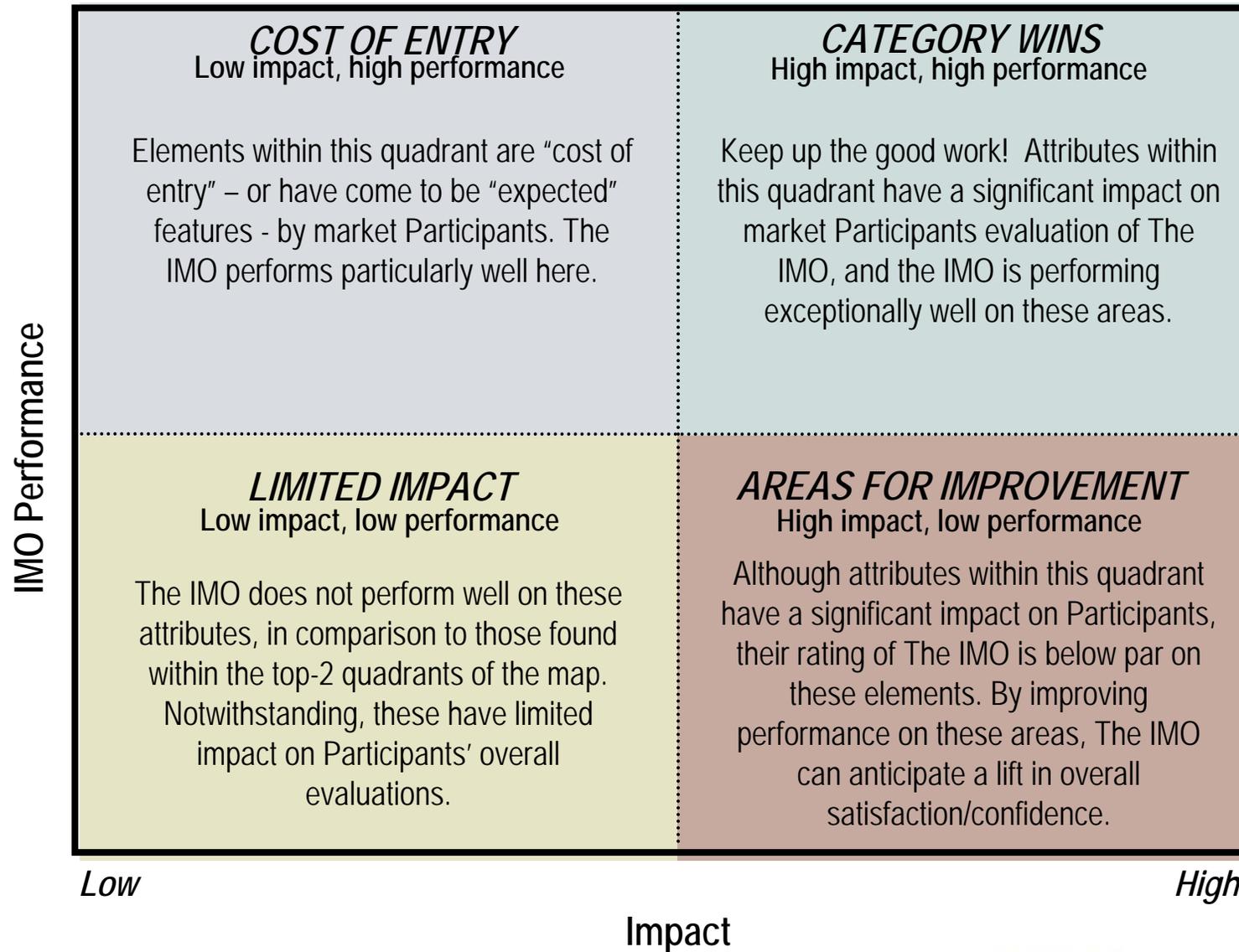
The following set of quadrant maps illustrate the performance of the IMO on several industry attributes relative to their impact on market Participants impression of the IMO.

Impact lies on the horizontal axis. This measure is based on the correlation of attribute rating on overall impression of (or satisfaction with) the IMO. The closer an attribute lies to the right, the greater this element affects overall impression.

Performance lies on the vertical axis. This measure is based on the top-3 box performance score for the IMO.

These maps graphically illustrate strengths and weaknesses of the IMO, permitting identification of key strengths and priority areas for improvement.

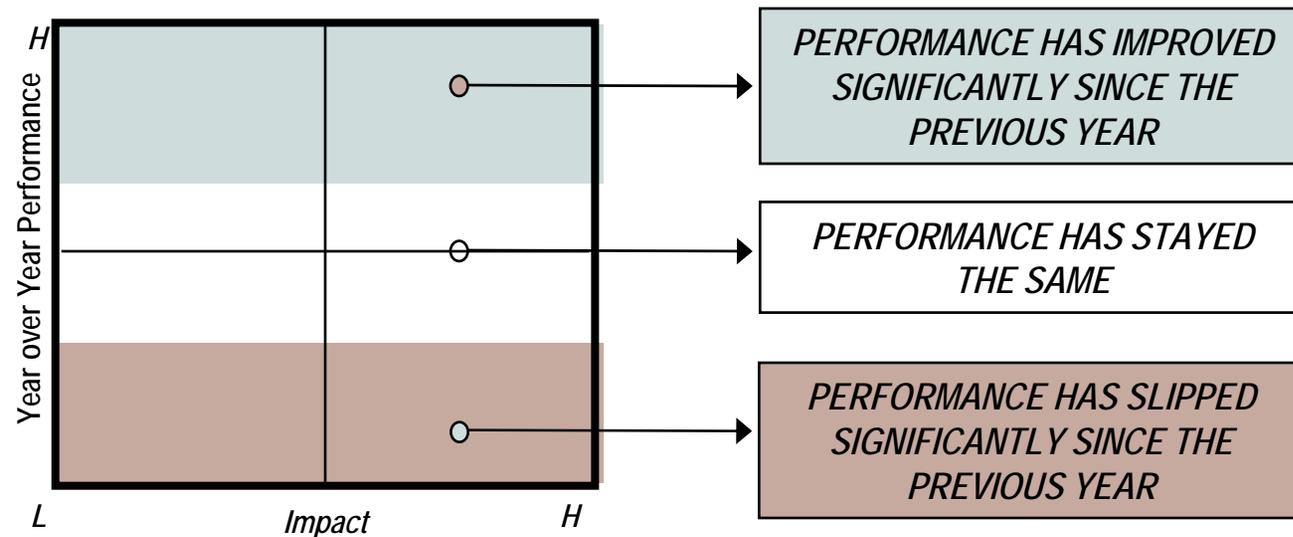
Understanding the Quadrants



Year-Over-Year Performance Maps



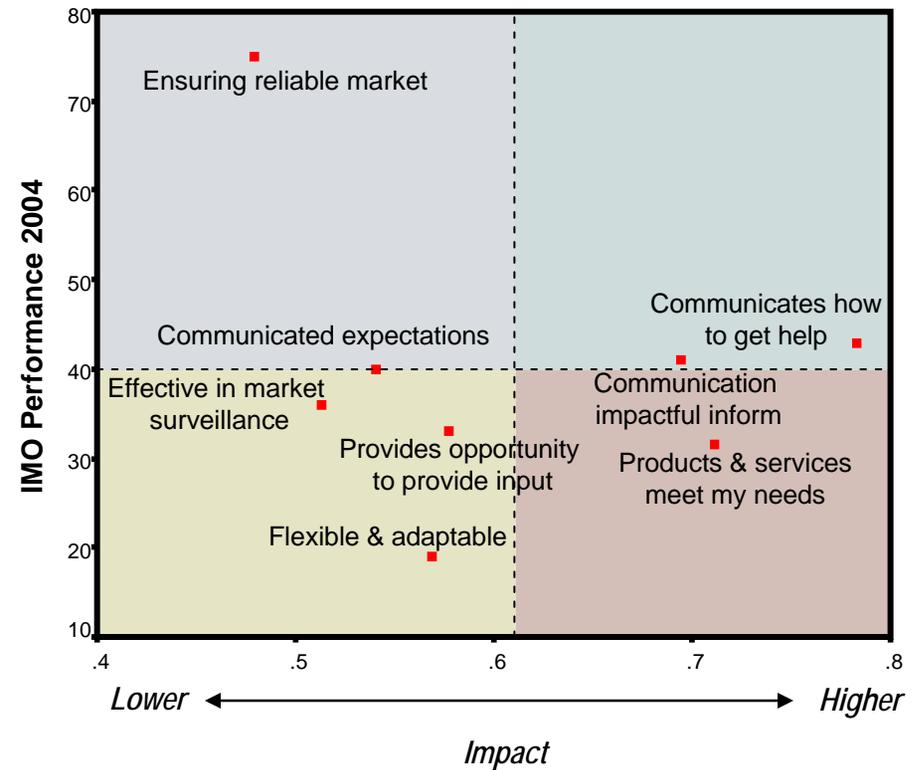
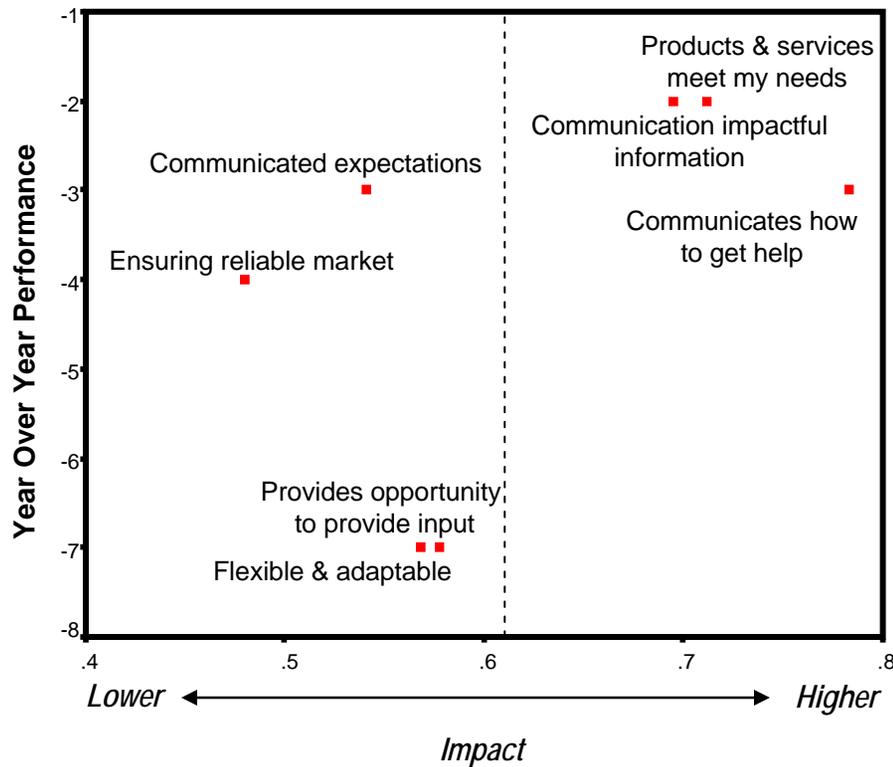
- We have also included a *Year Over Year Comparison* map. Through this tool, we are able to compare the IMO's performance on each area in 2004 to the IMO's performance on the same attributes in 2003:



Setting Future Priorities



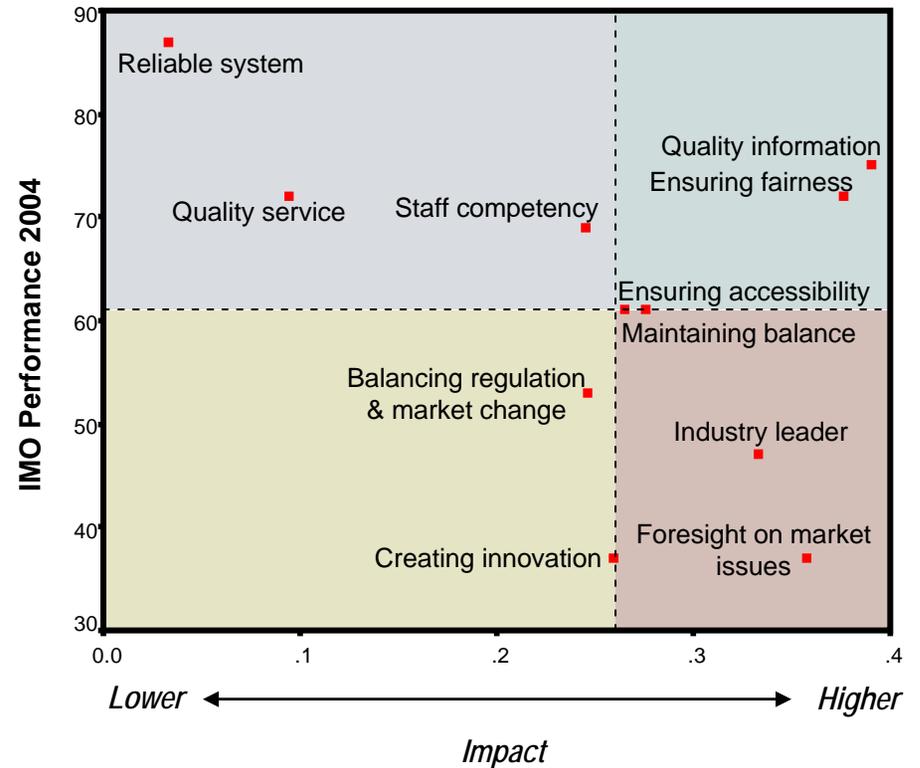
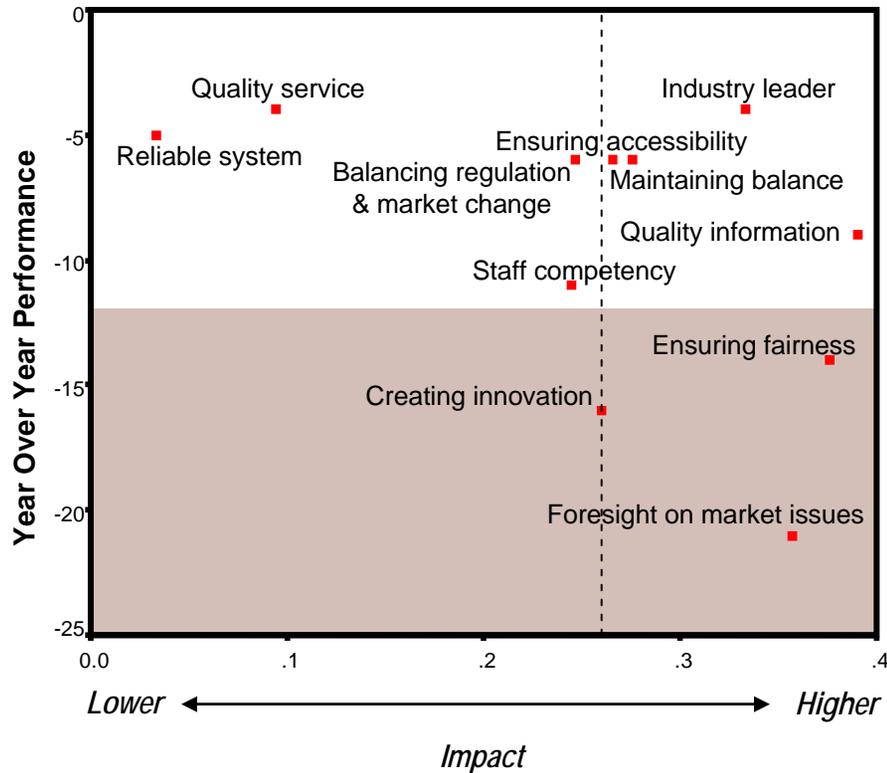
- There are no significant year-over-year changes. The IMO needs to lift performance ratings on 'product & services meet my needs' in order to raise perceptions that it is delivering in terms of setting future priorities.



Value for Dollar



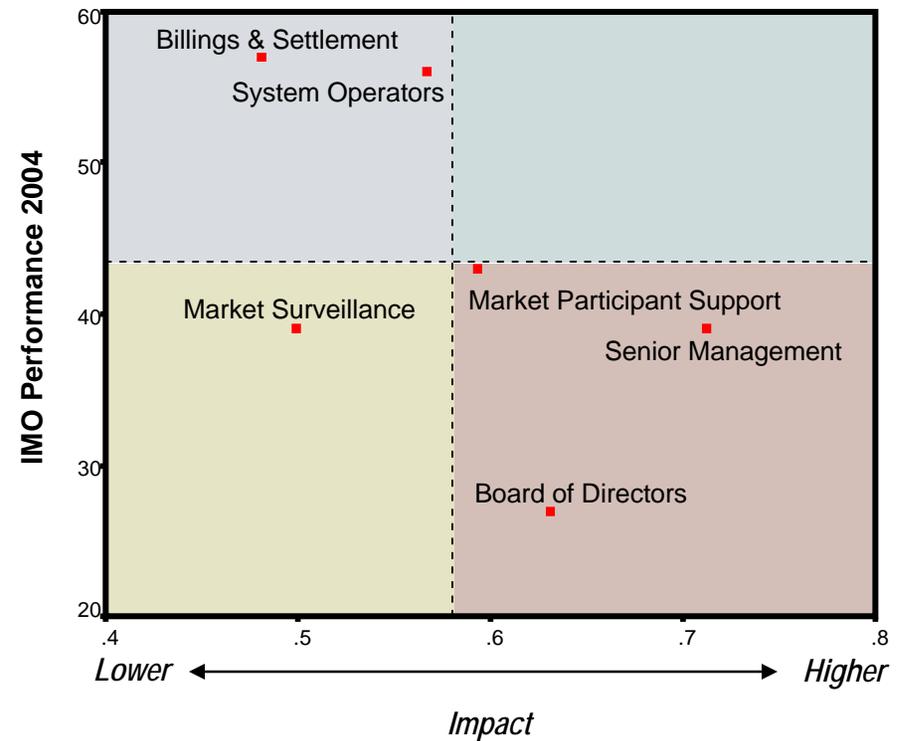
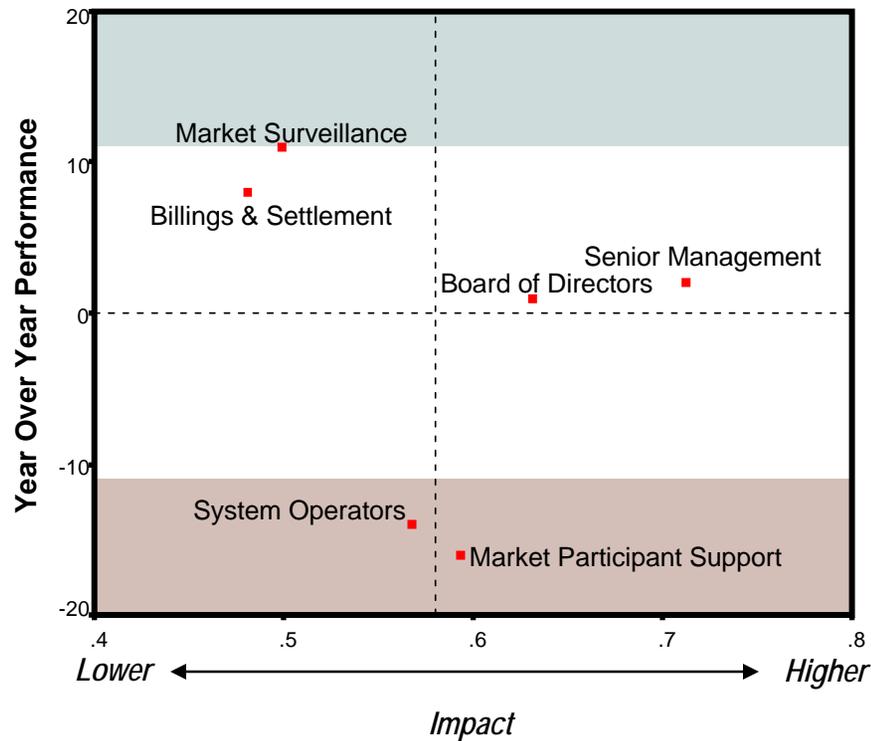
- The IMO is stable on most 'value for dollar' ratings in a year-to-year comparison, however has significantly dropped on measures including 'ensuring fairness', 'creating innovation' and offering 'foresight on market issues'.
- Comparatively speaking, room for performance improvement exist when it comes to 'creating innovation', being a 'industry leader' and offering 'foresight on market issues'.



Confidence in IMO



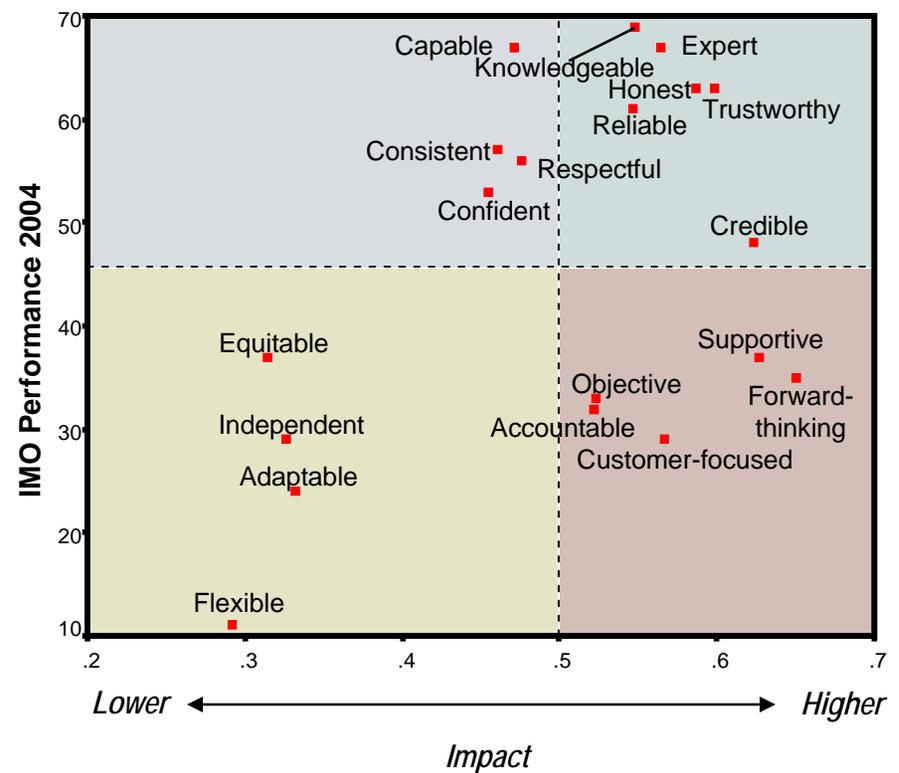
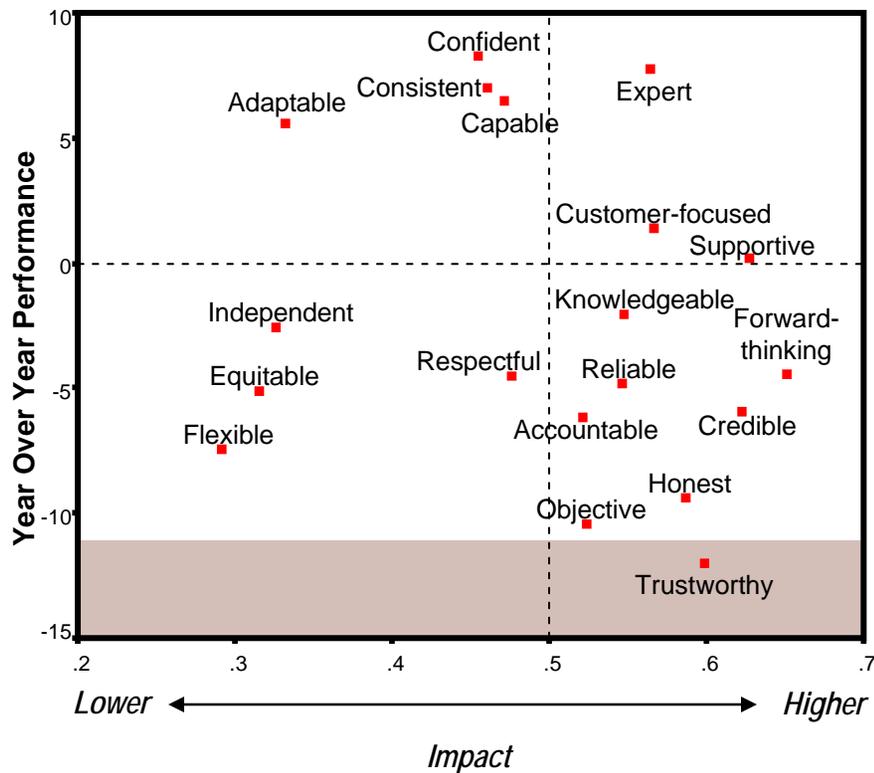
- Market participants are more confident with 'market surveillance' in comparison to 2003 but confidence in 'system operators' and 'market participant support' has dropped significantly.
- Looking at 2004 ratings, the IMO needs to improve their confidence scores with entities including the 'board of directors', 'senior management' and 'market participant support'.



Corporate Values



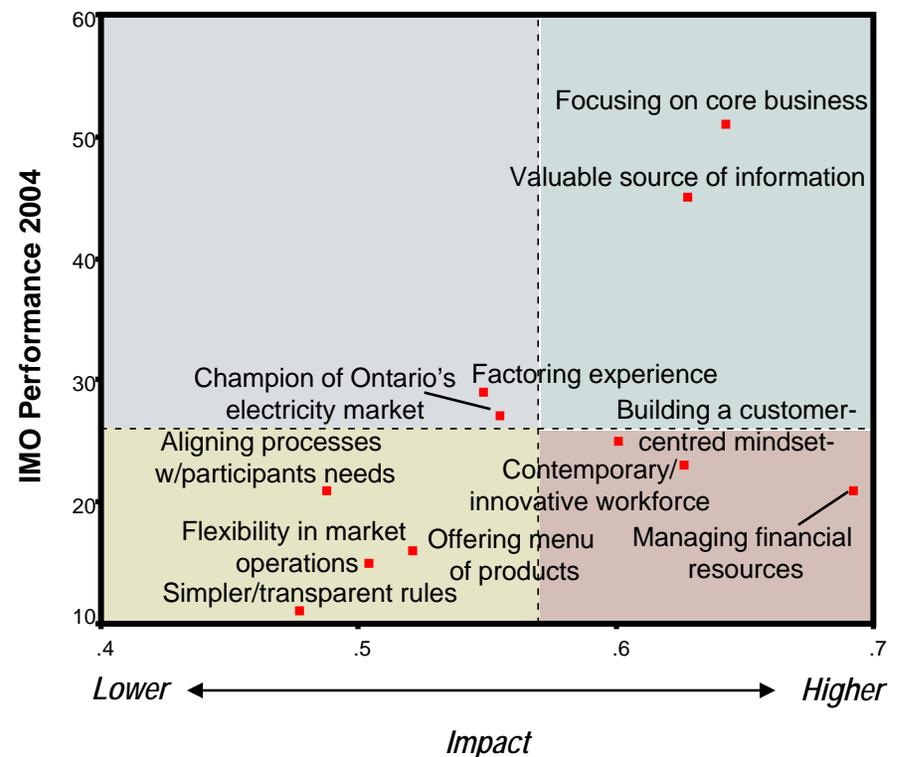
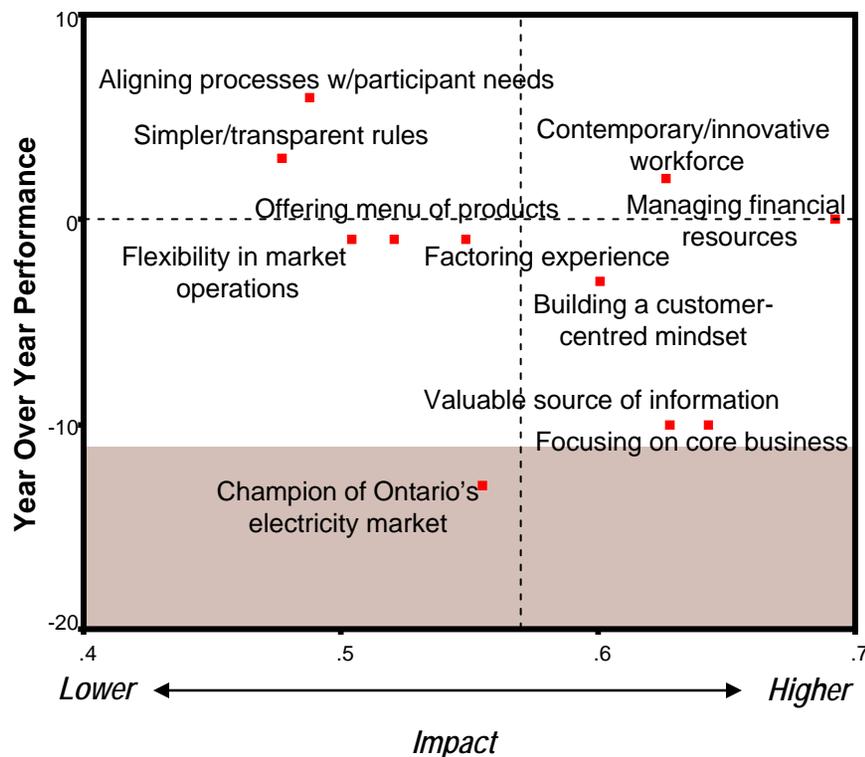
- All corporate values, with the only exception of 'trustworthy' – which has decreased, are unchanged in a year over year comparison.
- Areas of improvement include perceptions of the IMO being 'objective', 'accountable', customer-focused', 'forward-thinking' and 'supportive'.



Performance on Business Priorities



- This is the first year-to-year comparison of business priorities measures and all ratings are unchanged with the exception of being a 'champion of Ontario's electricity market' which has decreased from 2003.
- The IMO is performing well on 'focusing on core business' and being a 'valuable source of information'. Elements that have high impact but that need improvement include 'managing financial resources', creating 'contemporary/ innovative workforce' and 'building a customer-centred mindset'.



Themes for IMO Board of Directors

Board of Directors Messages/Themes



General

- IMO has done a good job in difficult times- loss of expertise with the new Board will be problematic.
- Focus on reliability of the market and do what is needed to encourage investment in generation and conservation.
- Stick to operating the electricity system in a safe and reliable manner.
- The market doesn't exist –it's too regulated
- Concentrate on supply balancing and pricing-you need to address supply adequacy
- We need changes in the market that allow price to reflect true market conditions.
- Be more flexible to market change on both rules and systems
- IMO can play a role in resource management (not just supply) and in partnership with regulated entities (integrated resource management).
- Ontario is in real economic jeopardy-loss of coal will hurt competitive prices.
- Be driven by changes that make the market better not by expediency /politics
- You need to advocate for users, not the government
- You need to preserve market independence and stay arms length from government and OPA.

Specific

- Need to improve settlement pricing and better verification
- Need for wholesale metering is overdone
- LDCs need more support- they don't have the resources that the IMO demands
- Show more flexibility to the unique needs/situations of participants.
- Penalties are out of whack with other ISOs- benchmark service costs with other ISOs.
- Removal of prudentials would be relief- LDC payment turnaround is unrealistic
- Provide training on Bill 100 –review the need for specific rules annually
- Push the day ahead market
- Reduce fees with reduced responsibilities