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October 15, 2001

To: The Board of Governors of Exhibition Place

From: Dianne Young
General Manager & CEO

Subject: Strategy for the Purchase of Electricity

Recommendations:

It is recommended that that the appropriate Exhibition Place officials be authorized to enter into an electricity pricing arrangement with Toronto Hydro Energy Services Inc. and/or the City of Toronto for the purchase of electric power.

Background:

Pursuant to a direction of City Council, the Board as an agency of the City purchases all electric power from Toronto Hydro Energy Services through an agreement between the City and Toronto Hydro.

Discussion:

Until the present time, the electricity market in Ontario has been a regulated environment with the provincial government owning the generation facilities and setting the wholesale price of electric power. The Province has decided to deregulate the hydroelectric sector and in this type of market, electrical power pricing will fluctuate daily and hourly. While the conversion to an open market was postponed from the original date of June 2000 it is expected to happen in May 2002. When it became apparent that a new market environment would be introduced in Ontario, staff from the City departments and agencies, boards, and commissions began to meet to develop a power purchasing strategy.

In a deregulated electricity market, a consumer's electric bill will have two components:

- Variable or commodity component (about 60% of bill)
- Other charges for local distribution, transmission, debt reduction which will be more or less fixed and subject provincial government review (other 40%)

The first step was to develop an electricity purchase strategy to identify the power usage profile for the City and each of the agencies, boards and commissions and for the group in aggregate. The following profile was developed:

- All of the City departments and the agencies, boards and commissions consume about 1.9 billion kWh per year at a cost of approximately \$135 million
- Exhibition Place represents approximately 1.55% of the total usage which is similar in consumption to the public libraries (1.67%) and police services (1.42%)
- As a whole the City and the agencies, boards and commissions consume about 66% of this power as a “baseload” requirement (the baseload is consumed at a constant rate seven days a week and twenty four hours a day)
- Exhibition Place shows more variability in its consumption pattern than most other City departments and ABC’s because the CNE and other events cause peak power requirements at different time periods throughout the year
- The total power requirements for Exhibition Place are approximately 30 million kWh per year including the CNE and the National Trade Centre at a current annual cost of about \$2.2 million

In terms of a power purchasing strategy, it is easier to make a supply agreement for the baseload requirements because it is predictable and constant throughout the year.

Deregulated electricity markets already exist in a number of other jurisdictions such as Alberta and nearby states such as New York, Michigan, and Pennsylvania. Upon the opening of electrical markets in other jurisdictions prices have tended to increase, sometimes by a significant amount. Also electricity pricing in these nearby states is currently higher than in Ontario. An independent energy consultant advised the City to lock in energy pricing for the commodity component now to avoid the impact of market volatility and higher pricing when the Ontario electricity market does become unregulated.

Proposed Power Purchase Strategy

The current electric power supplier for the City and its agencies, boards and commissions is Toronto Hydro Energy Services which is a wholly owned subsidiary of the City of Toronto. It is proposed that this supply arrangement remain in place and that a two part purchasing strategy be implemented:

- (i) The City and all its agencies, boards and commissions will execute agreements with Toronto Hydro Energy Services for the baseload requirements; and
- (ii) The City and each of its agencies, boards and commissions will then execute agreements for the non-baseload portion of the electricity requirements based upon their particular electricity use profiles

The exact details of this purchase will depend upon the market conditions on the date that the agreement is finalized but it is expected that a multi-year agreement with fixed pricing will be obtained. The negotiated price for the non-baseload portion is expected to be higher than the

negotiated price for the baseload requirements. For Exhibition Place it will be necessary to design a power purchasing agreement that recognizes the non-uniform electric power usage profile.

Conclusion

This reports outlines the City strategy with respect to an deregulated electricity supply market for Ontario and recommends that appropriate Exhibition Place officials be given authority to enter into electricity supply agreements with Toronto Hydro Energy Services Inc. for its baseload and non-baseload electricity supply requirements. A report on this subject with a similar recommendation is being presented to the City's Policy and Finance Committee on October 25 and to City Council on November 6, 2001, and also to the boards of other City agencies.

Contact:

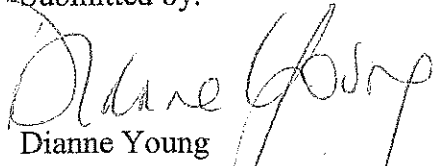
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