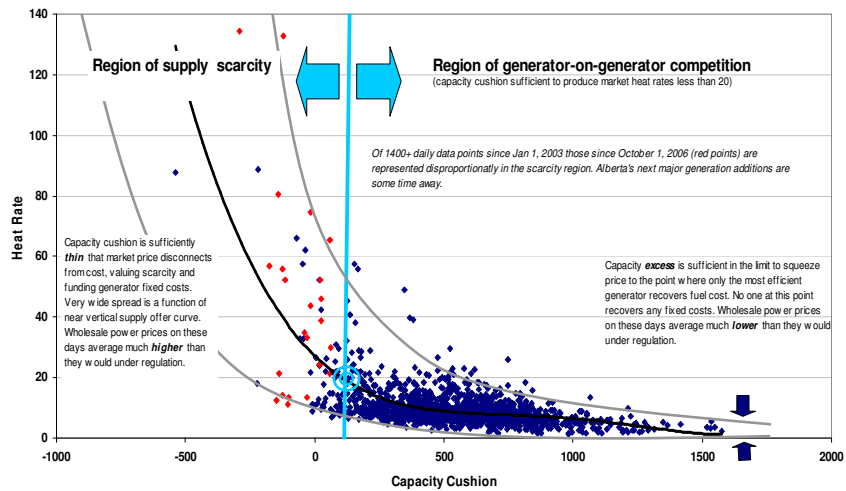


We've got work to do...

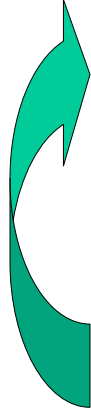
Martin Merritt
Insight Power Summit
November 28, 2006

Today's Reality

Average daily prices vs capacity cushion Jan 2003 – Oct 26, 2006



Transmission



1. Everyone wants a reliable & reasonably priced system
 - Load does not want to pay for wire
 - Siting wire is procedurally frustrated
 - Can't build new generation without wire
2. System gets less reliable & more expensive

We have a balance or a process problem to fix

Investment



1. Everyone wants competitive prices
 - Investment requires regulatory certainty
 - Problems & issues exist / persist
 - Imperfect solutions are available
 - Quest for perfection leads to filibuster
 - Procedural
 - Political
 - Complain "no progress"
2. Get no investment
3. Prices rise

Loop will persist until we disable the filibuster

Prices



1. Consumers want low prices, yet...
 - Demand for (forward) contracted supply is low
 - Low demand keeps (forward) prices and volumes down
 - Forward market fails to corroborate “scarcity signal” of real time market
 - Generation investors left shouldering most of forward price risk
2. When the future becomes “now” unhedged consumers will face high prices

Markets assume pursuit of enlightened self interest

Adjudication



1. Conduct requirements unclear
2. Tribunal accessibility low
 - Prosecutorial standard is high
 - Procedural protections front end loaded
 - Panel does not routinely sit
3. Case law not being made
4. MSA guidance untested

Expect to break this cycle in 2007... s.6 Committee & changes to MSA approach

Our Collective 2007 Job Jar

1. Improve clarity of conduct expectations
2. Improve access to (and use of) Tribunal
3. Rethink balance between individual and collective rights and processes to achieve
4. Brace for continued market tightness