

MERCER

Human Resource Consulting

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09 May 2005

Michelle Malfait
Director Human Resources
Direct Energy
1000, 111-5th Ave. S.W.
Calgary, AB T2P 3Y6

Private & Confidential

Subject:
Forecast of 2006 Salary Increases

Dear Michelle:

Direct Energy Marketing Limited (“DEML”) has requested that Mercer Human Resource Consulting (“Mercer”) provide an opinion on what we expect the average projected salary increase budget will be for 2006 in the broad Alberta labor market.

Each year Mercer gathers salary budget forecast data through two compensation planning surveys:

- The Compensation Planning Survey for Non-Union Employees (“CPS”) is a national, all industry, survey administered each August. The results are available each September and show forecasted salary and salary structure movement for the following fiscal year.
- For participants in the Mercer Total Compensation Survey for the Petroleum Industry (“MTCS”), each November Mercer conducts a Fall Compensation Planning Survey Update. As with CPS, this survey gathers and reports on forecasted salary increases and salary structure adjustment for the following fiscal year. Results are published in December.

We have no actual survey data which reports on forecasted salary adjustments as far out as fiscal 2006. However, for years, we have tracked the correlation between changes in the National Consumer Price Index (“CPI”) and salary increases.

To estimate forecasted salary budgets for 2006 for the western Canadian energy industry, Mercer developed a regression function using 18 years of Canadian CPI data regressed against the salary budgets from MTCS for the same years. The co-efficient of determination (i.e., the R^2 value) indicates the strength of the relationship between increases in CPI (the independent variable) and the salary budgets (the dependent variable). Using the 18 years of data available, the R^2 was

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0.45. This means that 45% of the variation in salary budget forecast can be explained by the variation in the national CPI.

Mercer's Information Resource Centre gathered information from a number of sources on projections for CPI for 2006, summarized in the following table:

Data Source	Forecasted CPI for 2006		
	National	Alberta	Calgary
Conference Board of Canada	1.9%	1.9%	1.9%
RBC Financial Group	2.1%	2.2%	n/a
TD Bank Financial Group	1.8%	1.9%	n/a
Calgary and Region Economic Outlook	n/a	n/a	2.2%

As the table indicates, there appears to be a general consensus that CPI will increase by approximately 2.0% in 2006. This is the continuation of a trend in CPI that has now existed for the last seven years where increases in national CPI have been maintained within the range of 1.7% to 2.7%.

Using the regression function developed with 18 years of prior data, and a CPI estimate of 2.0% for 2006, salary budgets are forecasted to increase 3.8% in 2006. To account for the fact that a number of other variables impact actual salary budgets, we would put a range of +/- 15% around the calculated figure suggesting that the average salary budget for 2006 will be between 3.3% and 4.4%.

Generally, during both bull and bear markets, economic forecasts tend to be conservative. Therefore, while we estimate salary increases will be forecasted to be in the 3.3% to 4.4% range for 2006, if current oil and gas commodity prices are sustained through 2005/2006 we would not be surprised to find actual salary budgets for 2006 to be 0.5% to 1.5% higher (i.e., in the 4% to 6% range). Where the final number falls in this range will ultimately be driven by the health of the economy and the immediate labour market situation.

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Michelle, please call me if you have any questions about how Mercer arrived at this opinion on what the salary budgets for 2006 might be.

Sincerely,

A handwritten signature in black ink, appearing to read "Jeff Webber", is centered within a light pink rectangular box.

Jeff Webber

Copy:
Scott Munn