IESO SENIOR MANAGEMENT UPDATE

To: Stakeholder Advisory Committee

Date: June 28, 2006

Subject: 12X Ramp Rate (SE–17)

Information Item IESO Board Decision Date: September 2006

Several options for resolution to this issue have been discussed with the Market Pricing Working Group (MPWG) and are described in the document titled "IESO Commentary on 12 Times Ramp Rate Solution Options" that is posted on the MPWG web page (http://www.theimo.com/imoweb/consult/mep_mp.asp). One of the proposed solutions to this issue involves a supplemental payment to generators that provide ramping energy (change output when requested). APPrO has prepared a report on the actual costs of generators for providing ramp, along with some explanation of the need for this additional side payment. This report was received from APPrO on June 22, 2006, will be discussed at the July 7, 2006 MPWG meeting and is posted on the MPWG web page.

The IESO management recommendation for solution to this issue will be issued in advance of the September Stakeholder Advisory Committee meeting and will go to the IESO Board on September 22, 2006.

Background Info on the Issue

To compensate for price volatility seen during pre-market tests in April 2002, a change was made to how the dispatch scheduling and optimisation (DSO) algorithm calculates the real-time unconstrained (market) schedule and the resulting market prices. The energy ramping capability of all dispatchable facilities was assumed to be 12 times higher than their actual capability, bringing pricing outcomes in line with pre-dispatch results. This was achieved by adjusting the inputs to the DSO by multiplying every dispatchable resource's ramp rate by twelve in the unconstrained sequence. This allowed slower, less expensive

resources to satisfy the demand (and set price) in the market schedule. No changes were made to the constrained schedule; the actual physical characteristics of the resources were still respected. The change was approved by the IESO Board as a temporary measure with the intent that a more efficient long-term solution would be found to replace it.

Stakeholders on the supply side in Ontario have consistently argued that 12 times ramp rate should be eliminated, while those on the consumption side are concerned about the increase in average energy price that this change would bring, if done in isolation.