

IESO Stakeholder Advisory Committee

TO: IESO BOARD OF DIRECTORS
DATE: September 5, 2006
FROM: STAKEHOLDER ADVISORY COMMITTEE
SUBJECT: BRIEFING NOTE

This memorandum is to update the IESO Board of Directors on the September 5th Stakeholder Advisory Committee meeting. Most of the meeting was attended by all of the SAC members and in addition to IESO staff, presentations were made by Dave Butters representing APPrO and by Adam White representing AMPCO, both on the proposal to change the 12 x ramp multiplier.

The other discussion items were the 2007-2009 Business Plan, Market Vision and Themes and Demand Forecast Deviations.

Specific Actions by the Committee

The Committee wishes to advise the Board of the following specific actions that were taken.

1. The Committee unanimously adopted a resolution that the Committee recommend to the IESO that the IESO respond formally and publicly to each of the recommendations and findings as reported by the Market Surveillance Panel, and track individual actions items on an ongoing basis.
2. The majority of the Committee members supported the IESO's proposal to adopt a 3x ramp. Seven were in favour, two were opposed and two abstained. The representative of the embedded industrial customers and the representative of the wholesale consumer market participants objected vigorously to the proposal. The residential consumer representative was not present for this part of the meeting.
3. The Committee supported the establishment of a Task Force to review the demand forecast deviations and especially the appropriate handling of the performance measure related to the bias element.

Additional background: 12 x Ramp Rate

This was perhaps the only contentious item on the agenda, and the bulk of the meeting was spent on this topic. This discussion was the culmination of many months of stakeholdering.

In addition to the presentation by Ken Kozlik summarizing the IESO's August 15th report on this subject, which included the recommendation to move to a 3x ramp rate, the Committee heard presentations from Dave Butters representing APPrO and from Adam White representing AMPCO.

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As context, Mr. Butters noted the lack of theoretical justification for the original adoption of the 12 x ramp rate, the significance to APPrO of eliminating this market attribute as a condition for support of the DACP and the extensive consultation on this question that has lasted for a full year. He noted that although the IESO has not adopted either of APPrO's two preferred approaches, one of which was based on an approach originally suggested in the Working Group by AMPCO, APPrO was prepared to accept the IESO's recommendation as an interim solution but was not prepared to agree to any dilution of the proposal.

Mr. White, in his presentation emphasized problems with the process wherein they believed that the specific recommendation of 3x ramp was not sufficiently discussed in the Working Group. He also noted the objects of the Electricity Act, specifically the requirement to protect consumer interest and to maintain a financially viable electricity industry. He expressed the opinion that the proposal did not protect consumer interests and was not necessary to protect the financial viability of the industry. He proposed a business case approach to the Committee which identified a cost to consumers of \$225 million and, given that the three largest generators are earning profits, there was no significant benefit to the market of the recommended change.

In the ensuing discussion some of the points made by various participants were:

- The study on generator costs conducted by LECG was neither thorough nor independent; others disagreed and noted it was a important contribution
- A question was raised as to whether or not the additional payments to be made to all generators would increase the incentive for generators to provide a ramping service.
- Mr. White's costs attributed to the change to the 3x ramp assumed that the 12x ramp represented an appropriate starting point for comparison.
- The proposal to use a change in price as representing a "cost" in the context of a cost/benefit study was questioned.
- The appropriateness of the profitability of generators or other market participants as a criterion for determining an appropriate pricing methodology was also questioned.
- One participant wondered whether it was within the IESO's mandate to deal with what was essentially a pricing issue.

A more detailed record of the discussion, including attribution of comments to specific members, is available in the minutes of the meeting.

Additional background: 2007-2009 Business Plan

Mr. Sherkey presented the IESO's 2007-2009 Business Plan which was well received by the Committee. In response to questions from Committee members, Mr. Sherkey:

- noted that figures for the DAM represented placeholders until a more detailed cost-benefit study was completed;
- agreed that the reference to enabling demand response would be qualified to indicate that it be "cost-effective" demand response

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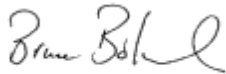
- Agreed to itemize, with respect to the additional staff indicated in the plan, what the additional staff would provide and whether or not they were replacing current temporary positions.

Additional background: Market Vision and Themes

The SAC continued its discussion of the Market Vision and the previously identified themes. Mr. Boland provided a draft document outlining his understanding of the Committee's common ground from their earlier discussions. He requested in writing, an indication from subgroup members of where they thought additional work would be of value. He noted in particular that DAM and LMP initiatives were underway by the IESO and therefore there was probably nothing for the SAC subgroup to do at this point in time. However, some additional work on defining a business case would likely be useful. There was information provided by Mr. Campbell on the inter-relationship between the IESO and the OPA with respect to demand response and conservation and it was suggested that that relationship be clarified in writing for the benefit of the SAC and market participants more generally. Mr. Campbell indicated that the need for LSEs as part of the DAM would be addressed in the study of the DAM. Mr. Boland noted the strong ties between three substantial programs, i.e. DAM, LSE's and LMP. As a result, the project to accomplish any one of them could result in a huge undertaking.

Additional background: Performance Metrics

Mr. Doran provided the committee with a presentation on demand forecast deviations, including the current methodology and how it might change in the future as well as some performance statistics. In response to questions, Mr. Doran indicated that the bias measure would indicate no bias if there had been hypothetically, over-forecasting in the first half of a month and under-forecasting in the second half of the month. Mr. Boland noted the potential for perverse incentives as a result of such a measure which could introduce inefficiencies into the dispatch of generators. As a result of a vote, the Committee supported the establishment of a Working Group to review these questions. OPG, Enersource and Hydro One had all previously indicated interest in participating on this Working Group.



Bruce Boland
Chair, Stakeholder Advisory Committee
On behalf of the Stakeholder Advisory Committee

cc Stakeholder Advisory Committee members
Elizabeth Morris