

**IESO Stakeholder Advisory Committee**  
**Minutes of Meeting**  
**September 5, 2006**  
**9:30 am**

**Advisory Committee Members in Attendance:**

Mr. Brian Bentz (representing Distributors)  
Mr. Bruce Boland, Chair (representing Generators)  
Mr. Bruce Campbell (representing IESO)  
Mr. Chuck Stradling (representing Commercial Consumers)  
Mr. Daniel Whyte (representing Generators)  
Ms. Julie Girvan (representing Residential Consumers) left the meeting at noon  
Mr. Matthew Picardi (representing Marketers/Brokers)  
Mr. Mike Humphries (representing Embedded Industrial Consumers)  
Mr. Paul McMillan (representing Marketers/Brokers)  
Mr. Steve Dorey (representing Transmitters)  
Mr. John LeMay (representing Wholesale Consumer Market Participants)  
Mr. Bruce Lourie (representing Environmental) arrived late  
Mr. Don Thorne (representing Distributors)

**Advisory Committee Members Absent: None**

**Presenters:**

Dr. Brian Rivard (IESO)  
Mr. Ken Kozlik (IESO)  
Mr. Gary Sherkey (IESO)  
Mr. Pat Doran (IESO)  
Mr. Dave Butters (APPPrO)  
Mr. Adam White (AMPCO)

**Introduction – Bruce Boland & Mike Humphries**

Mr. Boland reminded Committee members that the terms of six members were up and that the due date for submitting nominations to the IESO is September 12, 2006.

Mr. Humphries, who attended the July 27 Board meeting on behalf of the Committee, summarized the Board meeting. He reviewed with and presented to the Board the resolutions approved by the Committee at its last meeting regarding the Committee's strong support for legislative amendments granting the OEB remand authority to deal with North American Electric Reliability Council (NERC) reliability standards, and recommending that the IESO proactively study the potential introduction of locational marginal pricing (LMP) as a priority for development of the Ontario electricity market. The Board encouraged the Committee to bring forward further resolutions reflecting formal recommendations, advice and directions rather than just providing summaries of discussions.

Mr. Boland suggested that there was value in the IESO acknowledging the market surveillance panel report and responding to it in a more formal way akin to a response to an internal audit report.

**Motion**

Be it resolved that the Committee recommend to the IESO that the IESO respond formally and publicly to each of the recommendations and findings as reported in the market surveillance panel, and track individual action items on an ongoing basis. The resolution was unanimously passed.

**IESO Senior Management Update – Bruce Campbell**

Briefing notes were provided in advance of the meeting, the floor was open for questions on the notes provided.

**Summer 2006 Reliability Experience**

In relation to the Emergency Load Reduction Program (ELRP) Mr. Humphries asked whether the response to the ELRP programme was as expected and if not what were the roadblocks and what could be done to address them. Mr. Campbell explained that there were over 200 MW signed up for the programme and some had hoped for greater participation. Though there did not appear to be any major roadblocks to participation, the IESO would be undertaking a formal review of this summer's experience to determine if adjustments should be made.

The reliability report, and its comments regarding the operation of the day-ahead commitment process (DACP), focussed on inter-tie failures during those peak hours when the system was most stressed. More detailed information regarding the DACP is set out in the meeting materials. Pursuant to the stakeholder engagement plan there will be a formal review of the DACP programme in September and October, 2006.

The increased rate of export failures outside of participants' control in summer 2006 was not related to the DACP which does not apply to exports. This increase was as a result of the significant increase in the number of transactions and megawatts of exports this year due to improved supply. This year many of the export failures, and reductions, were to address Transmission Load Relief (TLRs) which are managed collectively over the eastern interconnect.

**Meter Data Management and Repository**

The cost of the IESO's involvement in the process is being segregated and will be charged consistent with the smart meter initiative. Mr. Bentz commented that the IESO is the correct body to coordinate this function. He asked whether the IESO will look at the specifications for advanced meter infrastructure (AMI), on which significant work has already been undertaken by the LDCs, the specifications for meter data management repository (MDM/R) and disparate computer information systems (CIS) in different LDCs. Mr. Campbell responded that the IESO

will manage from the connection with the AMI system into and out of the MDM/R. It is being built on the foundation of work which has already been undertaken by LDCs.

#### Remand Issue

Regarding the remand issue Mr. Boland advised that OPG has proposed a rule amendment to address this issue pending the legislative amendment. Mr. Campbell said that the Deputy Minister, in response to the IESO's letter which referenced the resolution of the Committee, had advised that the government intends to proceed with legislation on this issue at the earliest opportunity.

#### Locational Marginal Pricing (LMP)

On LMP Mr. LeMay suggested that the real issue is whether the government would approve it or not. If the government would not approve it there was little point in spending much time on it. Mr. Campbell said that the government has expressed interest in LMP which can take a wide range of forms. The Deputy Minister responded to the resolution of the Committee indicating that the government looked forward to receiving the study. It is anticipated that a stakeholder plan on this issue will be posted for comment shortly and that it will look to come to some sort of conclusion around November, 2006. It is also acknowledged that there needs to be coordination of the LMP discussion with the day-ahead market (DAM) discussion.

Mr. MacDonald of Gerdau Ameristeel and Mr. Gregg of Xstrata asked why consider LMP as an alternative if it was not successful in incenting transmission and generation construction in either PJM or Scandinavia. Mr. Gregg expressed concern that there would not be sufficient time to properly study the issue for a decision in November. Mr. Picardi distinguished the PJM experience and attributed their lack of construction to inadequate compensation and not to LMP. Mr. Humphries reminded the Committee that the study was to look at whether LMP should be implemented and did not imply a decision to implement it. Mr. Dorey agreed that the benefit of the project should be understood before working on the detail of how it might work. Mr. Whyte said that you cannot consider LMP in a vacuum. You must consider the context of other initiatives.

Mr. Campbell confirmed that the IESO intended to proceed in a measured manner, looking at the issue broadly first and if warranted proceed further. He also noted that in relation to the earlier suggestion that the IESO needed to respond to recommendations in the market surveillance panel reports, given the identified concern over the constrained and unconstrained pricing systems, DAM and LMP needed to be considered. By November the IESO would want to identify the issues and have some conclusion as to whether to recommend proceeding with more detailed work and consideration of the links to DAM. Mr. Kozlik confirmed that the market pricing working group had discussed the analytical data that would be provided, narrative insights regarding potential future behaviours if you move to LMP, and possible transitional mechanisms and other market mechanisms that might be required if you move to LMP. Mr. Dorey said that LMP would also need to be considered in the context of the integrated power system plan; Mr. Gregg said that a full study of LMP in other jurisdictions would be prudent rather than developing an Ontario-centric solution in isolation.

### Inter-tie Transactions Setting Real-Time Price

Simulation data has been provided to the market price working group and participants will be providing input to the IESO for consideration after the next Committee meeting. Mr. Boland repeated his position that if an inter-tie is a marginal resource it should not be dismissed as a price-setting resource simply because it is fixed for an hour rather than a five-minute period.

### 12X Ramp Rate

As a generator representative Mr. Boland asked a neutral party, Mr. Bentz who represents the LDC sector, to chair the meeting on this issue. A series of presentations by the IESO, APPrO and AMPCO were planned for before the lunch to be followed by a full discussion and canvassing of Committee members for their opinion after the break.

Mr. Bentz provided an overview of the history of the 12X ramp rate as a temporary measure introduced in May 2002 to dampen price fluctuations identified in testing phases leading up to market opening. Since its introduction the environment in which 12X ramp rate operates has changed significantly. The decision as to what to do with 12X ramp rate will have real consequences for both consumers and producers. Though it is not necessary for the Committee to come to a convergence of opinion, as it will ultimately be considered by the IESO Board, some convergence would help implementation and move the market forward.

Mr. Campbell thanked all participants in the process for their participation in the lengthy stakeholdering process on the 12X ramp rate issue. There was an enormous amount of discussion and work identifying issues, and developing a good understanding of the issues associated with the alternatives. In recommending a course of action IESO Management took into account all of the considerations that were put forward over the months of debate over the issue. Prior to making a recommendation to the Board, IESO Management will take into account and carefully consider today's discussion.

Mr. Kozlik summarized the report published on August 15<sup>th</sup>. He said that the IESO considered the 3X ramp rate, which had been previously discussed in 2005 and considered in some simulations in January 2006 and in additional simulations. This was done in light of little convergence on other solutions, and the desire to improve the efficiency of the market. As set out in his report it offers market efficiencies, its impact on prices is subject to mitigation, and it is easily implemented. Dr. Rivard, manager of economics at the IESO, summarized the price impact of moving from 12X ramp rate to other ramp rates.

Mr. LeMay suggested that the LECG study, which was based on one OPG coal facility, was neither thorough nor independent. Mr. Kozlik concluded that the study provided reasonable and complete analysis of fossil units. Additional work could be done on other types of resources. Mr. Kozlik clarified that the main source of mitigation of price effects would result from exports being reduced as a result of a higher Hourly Ontario Energy Price (HOEP). Exports constitute additional demand and increase the price in Ontario. To the extent that

exporters see a higher price and realize that they are not economic, they will not export and will reduce demand. Shrinking demand in real time sets a lower price in Ontario. The calculations included consideration of the new Clean Energy Supply (CES) contracts, early movers, wind power, OPG prescribed, OPG rebate and Bruce A contract.

Mr. LeMay referenced a report by the European Commission which concluded that a high level of concentration among generators impeded the development of effective competition with the result that prices were higher than they otherwise would be. The level of concentration in Ontario is higher than in the European study and it would not be unreasonable to expect Ontario prices to be higher than under competitive conditions. This led Mr. LeMay to have difficulty in accepting that Ontario generators are not properly compensated. He said that he is unaware of evidence that would support the conclusion that generators were under compensated.

Mr. Whyte complimented Mr. Kozlik on a thorough presentation, but noted that it did not capture the issue of "free ridership" being a subsidy currently paid by well-behaving generators to generators which do not or cannot respond to ramping instructions. Mr. Kozlik said that the proposal would impact the market clearing price, consistent with the methodology in all North American electricity markets, and thus be paid to all generators. In conducting the study the IESO considered the effects of 1, 3, 4, 6, 9 and 12X ramp rates.

Mr. Boland said that it was significant that the IESO recognized that there was an issue regarding generator compensation that needed to be fixed. Mr. Kozlik said it was a transition mechanism because real-time pricing may be quite different with DAM, LMP and inter-ties setting price, with opportunities for the real-time market price to be a market more for those who can actually respond to it.

Mr. Kozlik said that a one-month analysis of the various ramp rates was posted on the IESO's web site in January. The confirming six-month analysis was circulated to the market pricing working group prior to their discussion of it on August 23<sup>rd</sup>. Mr. Gregg said that this was a concern since the working group had been focusing on multi-interval optimization (MIO) and the APPrO proposal. He said that there was no analysis that shows the \$225 million is fair compensation to the generators. Mr. Kozlik said that it can be debated whether the \$225 million is fair compensation. He said that if you looked at some of the prices that come out of the shadow prices of the constrained run, you may argue that the compensation should be even higher.

#### APPrO Presentation by Mr. Dave Butters

Mr. Butters made a presentation on behalf of APPrO. There was never a theoretical justification for 12X when it was introduced and even less now. It has been under active debate for almost a year. APPrO reluctantly supported DACP subject to the IESO addressing the 12X ramp rate issue and inter-tie setting market clearing prices. It is APPrO's position that it should either be 1X myopic or some kind of additional ramping payment. There is a need for change and the

issue has been extensively stakeholdered. Though the IESO brought forward its recommendation which does not adopt the APPrO proposed payment, it is well argued and thoughtful. APPrO agrees with it on 2 fundamental points: generators are under compensated by the 12X ramp rate relative to what would be expected in any other real-time electricity market; and there are non-trivial costs incurred by generators as they respond to dispatch and ramp up and down. The IESO have identified the gross total of the change as \$225 million which is reduced to below \$20 million after all of the adjustments and mitigation factors are considered.

APPrO agrees with this analysis and is aware that others have made independent confirmations using public data regarding the magnitude of net costs. As such emphasis on the \$225 million figure is alarmist and not helpful.

Though it is not APPrO's first choice they accept the IESO's proposed 3X ramp rate as an interim solution, but are not prepared to countenance dilution of the proposal. The status quo is not an option and they expect the IESO to continue to work to improve real-time pricing.

Mr. Butters could not pin down the exact cost as the actual cost will depend on a number of mitigating factors, but it would be in the range of \$20 million. Dr. Rivard noted that the simulation showed a range of approximately 2% but it was more difficult to estimate the mitigation factors such as the elasticity response of exports; he had, however, a fair degree of confidence in the estimate. Mr. LeMay questioned how a payment to all generators would procure additional ramp capability. Mr. Butters said that it would be available to new generators as well. Ramp has value and is required by the system. It needs to be rewarded. This is the most expedient way to move forward to the 1X ramp rate it should be and building it into the constrained run. Mr. Carey of Cardinal Power added that those who are capable of ramping are better able to take advantage of the price opportunities as they arise.

Mr. Bentz said there is the question of equity in generators recovering full cost, and a question of dynamic efficiency in sending the right signals to the marketplace to get the ramping generation online. Mr. Kerr of Coral Energy commented that the IESO's proposal, though a surprise and one which notionally increases the price by \$1.50, was discounted in subsequent trades. It had no impact on price. It reflects the fact that people think that the IESO's opinion in this case needs to be followed. Mr. Gregg said that he was unaware of any evidence of under compensation of generators. In response Mr. Butters referenced the LECG study about uncompensated costs and the fact that the IESO agreed that the case for under compensation was made.

Mr. Lung of Direct Energy said that if it is a temporary measure, when would it be replaced? Mr. Campbell said he thought it would be in place through much of 2008 by the time DAM implementation, assuming it was approved, was done. The cost of implementing the IESO proposal is practically zero and would only take a couple of days to implement, subject to

giving reasonable notice – say 22 days similar to the notice provided for market rules – to market participants.

AMPCO Presentation by Mr. Adam White

The issue is of paramount importance to AMPCO in its relationship with the IESO, and other stakeholders. Mr. White advised that as he would not be available later to speak to the issue of what a business case for a market rule amendment should be that he was scheduled to speak to in the afternoon, he would cover both topics now. Mr. White said that they felt that they had not been given enough data or details of the IESO's methodology and could not duplicate the results obtained by the IESO. He said that they had identified methodological errors with the IESO approach.

AMPCO is concerned about the price, reliability, adequacy and quality of electricity service. Any proposed changes to market need to be assessed in relation to these considerations. The other purposes of the Act are given to other organizations. The Act requires protection of consumer interests and maintenance of a financially viable electricity industry. AMPCO has heard the presentations of this morning before and has spent significant time and money dealing with this issue. The 12X ramp rate was adopted in the first place to protect consumer interests from excessively high and volatile prices. Generators have set out their concern about excessive dispatch instructions which are not efficient. AMPCO formally support some of what IESO staff has expressed previously about needing to look at MIO. Efficiency requires optimization of the fleet and over time. The current IESO dispatch tool does not do this. There are a variety of ways that the issue of excessive dispatch instructions can be addressed.

Generators claim that they have costs as a result of this dispatch and are inadequately compensated. They should be able to incorporate these costs into their bids and offers. In a competitive market they would do this, and would accept some risk in doing so. This is inherent to competition. There is inadequate competition in Ontario with the result that rather than incorporate these costs into their bids they seek to achieve their objectives from regulatory change. Mr. White said that perhaps he is cynical on this issue as he works in a public affairs milieu and the value people like him bring to their clients offers a huge return on investment vs. making actual changes in operations or improvements to plant.

In doing a business case you need to consider the efficiency in the use and generation of electricity which relates to the purposes of the IESO. Reducing costs or improving services can be characterized as efficiencies. In considering whether some market design incentives lead to efficient behaviour by market participants consider the broader social context of businesses making business decisions about their operations and being concerned about high prices. The IESO's presentation incorrectly states that a higher price is a better quality price signal and more efficient. This can only be proven if you look at benefits and costs.

The benefits of the proposed change have not been established. There is no evidence 3X will change the number of dispatch instructions. The IESO has presented evidence that there will be

some reduction in congestion. There is no evidence to establish that adequacy, reliability and quality of electricity service will be improved. On the cost side total prices will go up. From a consumer perspective how does that relate to affordability, and the competitiveness of Ontario? In terms of the financial viability of the industry generators are recovering their costs and earning an appropriate return.

There is a lack of understanding of economics and the IESO has misused opportunity costs in its presentation. Mr. Rivard has some economics but the IESO's expertise lies elsewhere. This is a material deficiency in the IESO's analysis and recommendation to the Board. AMPCO does not have this difficulty in dealing with the Ontario Energy Board because it deals with issues based on evidence, the merits and a balancing of public interests. There is no evidence in support of the 3X ramp achieving the desired objectives of dealing with dispatch issues at the lowest cost and producing benefits in excess of costs.

Some benefits may be non-tangible and need to be assessed as qualitative benefits. The IESO should serve the public interest and can only do that by looking comprehensively at costs and benefits. It must be done in a transparent manner in which a reasonable person can reach similar conclusions. The OPG rebate is not a benefit but a transfer. The cost is the total cost to consumers of \$225 million. The benefits claimed by the IESO are a reduction in congestion management payments; it is questionable whether a reduction in exports is a benefit given that Ontario Hydro used to earn significant revenue from exports. The net cost is \$195 million which significantly exceeds the benefit. The IESO also incorrectly suggested that the rebate/global adjustment is 75% ignoring that the market price can be lower than the fixed price and non prescribed assets. The figure is more in the order of 64 to 67%. You cannot use a financial impact as a benefit. Based on public data the generators are earning profits.

At this point IESO Board members withdrew as a result of a prior engagement over the scheduled lunch hour. Mr. White commented that he had not anticipated this and that it was not inconsistent with AMPCO's experience that they would leave.

Mr. White continued, referencing the earnings of Brookfield Power with a 19% return. Mr. Whyte, generator representative, noted that the figures for Brookfield were aggregate corporate numbers regarding their operations across North America and shouldn't simply be applied to Ontario. Mr. White said that OPG had net income, allowing for the rebate paid as a dividend, of \$1.8 billion in 2005. In conclusion of his basic presentation, Mr. White said that there is no evidence that the generators are not financially viable.

The costs exceed benefits by a wide margin. The single biggest beneficiary of an increased price, Bruce Power, cannot ramp. Mr. Alpajaro of Bruce Power interjected that this was factually incorrect as Bruce had ramped units as recently as over the weekend.

Mr. White said he was astonished at the IESO proposal on 3X ramp as it had not been previously consulted. After spending significant time and money on the working group

Mr. White said he was not inclined to participate further in working groups as it was fruitless to do so, they felt it was difficult to express their views in a respectful manner, and the IESO proposal was proof that what AMPCO has been saying for so long has not been considered.

Mr. White said it is a very serious issue for them financially and in terms of the principles applicable to how such decisions should be made. If they are unable to make it work on this issue he cannot understand why they would participate further on any other issues. He considers the IESO to have failed on its need to respond to stakeholder concerns. AMPCO participated in good faith and the IESO proposal violates what AMPCO has been arguing about all along. To earn support for a change you must establish that the benefits exceed the cost.

Mr. Bentz observed that Mr. White's calculation of a shortfall was based on the assumption that the 12X ramp rate was a neutral starting point. Mr. White replied that he was looking at the specific proposal, the process followed to lead to the recommendation by IESO staff, and the implications of it for customers.

Mr. Boland observed that in doing a cost-benefit analysis one does not look at the price and say that it is a cost and bad; that is a distributional issue. A cost-benefit analysis should look at the consumer and producer surplus and maximize them. The primary benefits of the IESO proposal are a decrease in Congestion Management Settlement Credit (CMSC) and Inter-tie Offer Guarantee (IOG). The cost of doing this is minimal; one staff member changing the number of the multiplier. There are other distributional aspects which have, as noted in the IESO presentation, largely been mitigated. The 12X ramp was an arbitrary, temporary measure which resulted in a subsidy. The generator's report [LEGC report] and the IESO report recognize that the generators are not sufficiently compensated relative to expectations in any other market. It does not advance the discussion to comment on the earnings of certain generators nor would it be appropriate to argue that certain customers who are doing well should pay higher energy prices. OPG itself wrote down the value of various fossil assets with significant financial pain for a number of years to start earning a reasonable return.

Mr. White said that in a competitive market the marginal generator should not be making money and yet he was unaware of any generator not making money in Ontario. He said the three companies he looked at were profitable. Mr. Whyte of Brookfield Power said that the reported numbers for his company were not broken down by jurisdiction such that Mr. White of AMPCO could not make the conclusion that they were in fact profitable. Mr. White said that the issue under the Act was whether the generators were viable, whether the proposal improves efficiency, and whether it protects the interests of consumers.

Mr. LeMay noted that the departure of the IESO Board during Adam White's presentation was rude and inappropriate; he further noted that a number of AMPCO members were present and would have liked to have the Board hear them. Mr. LeMay said that if there is a next time – because they do not know where they will take their issue – it should not happen.

Mr. Campbell replied that the Board members in attendance had a pre-arranged meeting scheduled with the balance of the other Board members over the lunch hour.

Mr. MacDonald commented that from his perspective the baseline for assessing the proposal was the status quo; this results in the proposal increasing costs without benefits. He also said that if the proposal is a temporary measure pending the introduction of DAM and LMP, his company's energy costs in regulated markets are lower than those with LMP.

Mr. Horrobin of Bruce Power commented that Mr. White's reference to earnings was neither appropriate nor helpful in moving the discussion forward. Moreover, in addition to maintaining a viable electricity industry, the objects of the Act include adequacy, sustainability and reliability.

Mr. Cowan of the Ontario Federation of Agriculture said that the proposal would require customers to pay more without any evidence that they would be better off by doing so. Mr. Pollitt of Wesdome Gold Mines noted that increasing energy costs have hit his company hard. They are laying off in Ontario and moving certain operations and programs into Quebec because it has structured energy costs. Ontario needs to maintain a stable cost complex.

Mr. Bentz, following the lunch break, advised that Ms. Julie Girvan had left the meeting and would be providing written input. He also noted that though it is not necessary for Board members to be in attendance, various members of the Board were present which was helpful. He said that during Mr. White's presentation the Board members left the room for a prior commitment which had been scheduled over the lunch break. Unfortunately as a result of running late they were required to leave during the presentation. Ms. Carr said that the Board appreciated the opportunity to sit in and listen to the presentations, and discussions. She apologized for having to leave during Mr. White's presentation and undertook to follow up with him to go over any details they missed. She said that the Board also benefited from the detailed minutes of the meeting which are read with great interest.

#### Open Discussion re 12X Ramp Rate

Mr. Gregg said that he had participated in the working group discussions but felt that faith had been broken as a result of the IESO undertaking analysis of the 3X ramp rate without bringing it forward. It was unfair to surprise them with the proposal. This reflects poorly on the good work that the IESO has done on stakeholdering and needs to be corrected going forward to ensure transparency, clarity and honesty. The IESO have done a good job of making sure the system works effectively, technically, but should they be addressing what is essentially a pricing issue. If it does it must ensure that it is serving the public good, acting in a fair and balanced manner. He has not seen evidence about under compensation of generators, nor has he seen evidence of benefit to consumers.

Summary Positions of the Sectors on the 3X Ramp Recommendation

Mr. McMillan - marketer representative - supported the IESO proposal. Though it is not perfect it embodies appropriate market principles and a step forward towards a pure marketplace and a binding day-ahead market.

Mr. Boland - generator representative - acknowledged the good work of the IESO in trying to find a solution after considerable debate. Though there could always be more done, a lot of effort was put into it by many parties. The IESO proposal is not what he wanted to see at the outset but it is extremely important as an overdue step in the right direction. He agreed with the IESO that it is just a temporary fix with longer term solutions down the road, but appropriate at this time.

Mr. Humphries – embedded industrial consumer representative - agreed that a lot of work had been done. The discussion indicated the need to set standards for how studies like this should be done in the future. The status quo was not listed as an option which suggests that you are changing whether you want to or not. It is a temporary measure because down the road measures will take the volatility away from the majority of customers leaving those who want to deal with volatility in the market. If it is temporary it imposes costs without offsetting benefits. As a customer we look for what's in it for me. There is no evidence of benefits. On the cost side a generator needs to bid to cover his costs. It appears that the proposal is to pay the rest of the generators in the stack the same as the generator who is ramping fast. The global adjustment may not endure as long as the ramp proposal. Mr. Humphries supported the status quo.

Mr. LeMay – wholesale consumer representative – supported Adam White's presentation emphasizing that there was a lot wrong with the recommendation and there has been no case made to support it. He also said that AMPCO had a real concern about the process followed which might result in AMPCO opting out of further participation in IESO processes.

Mr. Whyte – generator representative - supported the staff recommendation. It is not what he wanted but it is as close to consensus as possible. It has been a model of good stakeholdering. The Board should be cautious of certain interests who claim that there has not been enough discussion, study, or stakeholdering. They are merely seeking to delay which is the worst thing that can be done.

Mr. Picardi – marketer representative - endorsed Mr. McMillan's comments and added that he agreed with some of the discussion on how to undertake a cost-benefit analysis, and look at the economics.

Mr. Dorey – transmitter representative - abstained as transmitters have no direct interest in the issue.

Mr. Stradling – commercial consumer representative - said that he appreciated all of the efforts of IESO staff. As a consumer group we would be philosophically opposed to anything that would result in increased costs to our members. However in this case it is correcting a condition that was arbitrarily introduced at market opening. I am not qualified to determine the equality and defer to the experts (IESO) and feel that our members would support putting this matter to rest with a solution that is certainly a compromise for both camps.

Mr. Thorne – distributor representative - abstained as distributors have no direct interest.

Mr. Lourie – environmental representative - said that he thought the IESO presentation was well reasoned and represented a reasonable compromise between the positions put forward.

Mr. Bentz – distributor representative - said that the IESO proposal was a reasonable compromise. The amount of money at stake was not material – whether it was \$20 or \$50 million – in the context of the entire market. Costs to implement are negligible. There were concerns regarding process which could be looked at in the future. No consensus was built but the views of the Committee members were out on the table.

Ms. Girvan – residential consumer representative was absent.

In closing Mr. Campbell said that the IESO had worked hard on the process to ensure that the issue was aired as deeply and broadly as possible. Recognizing that AMPCO was not satisfied with the process Mr. Campbell offered to talk with AMPCO about their process concerns and see if they cannot be addressed going forward. The IESO brought forward the proposal with the belief that the analysis and discussion was adequate to support it.

Mr. Boland noted that other parties may want to offer their own views of the process with a view to improving upon it. Mr. Campbell confirmed that there will be a review as part of standard stakeholder review process.

Mr. Boland extended an invitation to Mr. LeMay to attend the next Board meeting to speak directly to the AMPCO position with Mr. Boland or Mr. Whyte speaking to the generator side. Mr. LeMay said that he would not be available but would discuss an alternate with Mr. Boland.

### **IESO 2007-2009 Business Plan**

Mr. Gary Sherkey made a presentation to the Committee regarding the Business Plan. In response to Mr. Bentz, Mr. Sherkey explained that the rebate would flow through to the LDC embedded customers based on the average quantum of energy consumed. Mr. Dorey asked if the IESO had completed a cost-benefit study on a DAM. Mr. Sherkey said that a study would be underway this year with a business case to follow. The numbers in the business plan for the DAM are placeholders for planning purposes. As discussed with the Committee, the IESO will present a robust business case before making any decision on the implementation of a DAM. It will likely be into 2007 before the IESO is at this stage. Mr. Sherkey agreed with Mr. Boland's

suggestion that the reference to enabling demand response should be qualified by the requirement that it be “cost-effective” and not an end in itself.

Mr. Boland also enquired about staffing levels, noting that if the IESO had managed with 410 staff, why did it need 422 in 2007? Mr. Sherkey explained that this was a question of reprioritization of work and shifting of staff to address the more significant and pressing issues. Mr. Murphy from the IESO noted that the 410 number did not reflect temporary staff. Mr. Boland asked for itemization as to where the staff increases would occur, and what they would provide, as well as identifying where the staff increases were replacing temporary staff.

Mr. Whyte said that the presentation was quite comprehensive. He noted that there appeared to be a 7-fold increase in the category other capital expenditures between 2007 and 2009. Mr. Sherkey explained that this was a view of the envelope of anticipated projects which may or may not come to fruition at that time. As one moved closer to the planning period there would be greater detail and prioritization of the projects that would be going forward.

Mr. Humphries commented that it was a good presentation.

Mr. Collie of Burlington Hydro said that it was a very well structured presentation that was easy to follow. He also commented favourably on the fee reduction and, more importantly to him, the prudential review in relation to LDCs. He asked for clarification of the roles played by the IESO in contrast to that of the OPA in relation to the movement of risk away from government. Mr. Sherkey said that the IESO would work with the OPA towards a shared vision and end state of a more competitive market that would see the transfer of risk from government and consumer to those better able to underwrite and manage those risks.

Mr. Bentz enquired about benchmarking to assist in determining whether the IESO is adequately resourced and staffed. Mr. Sherkey advised that significant progress has been made on benchmarking. This work has led to Federal Energy Regulatory Commission (FERC) establishing a uniform system of accounts in the US which will facilitate comparisons with other ISOs. By mid-year 2007 the IESO will have a full year of data and will be working to do a meaningful comparison.

Mr. MacDonald asked why move from central procurement when there is no market solution which has been proven to be better than central procurement. Mr. Sherkey said that the IESO, supported by its Board, sees a competitive marketplace as the appropriate objective to work towards. This is consistent with the view of the OPA and the majority of the Committee which has previously discussed this issue. Moving towards a more competitive marketplace is better than the status quo. Mr. MacDonald said that he understood that the prudential dollars posted by customers were not paid back to them; Mr. Sherkey clarified for Mr. McDonald that prudential monies are held in market accounts and are credited back to the market participant.

### **Market Vision and Themes**

Mr. Boland circulated a first draft of what he understood to be common ground on the Committee regarding the overall market vision. He invited written comments from other members to be forwarded to him by email and to be discussed at the next meeting. He requested that the members of the groups addressing sub themes draft a few paragraphs on their understanding of where they are and the value that could be had from doing further work.

On the DAM and LMP Mr. Boland suggested that there was little work to be done by the subgroups since the IESO was moving forward with stakeholders to study these issues. On the issue of defining a business case it would be useful to do further work.

It was suggested by Mr. Humphries that work be done to understand the linkages between the IESO and OPA regarding demand response and conservation, with the objective of looking at ways to bring more cost-effective demand response to the market. Mr. Campbell clarified that where a particular program is taken on for reliability, such as the ELRP, it is done by the IESO. Economic demand response is being led by the OPA, with the IESO having a supporting role in taking on the system operations aspects of implementation of such programs. Mr. Boland thought it would be useful for this distinction in roles to be written up as a draft straw man by Mr. Stradling and Ms. Girvan, with input from the IESO and OPA. Mr. Dorey said that there will be demand response aspects to DAM, LMP and Load Serving Entities (LSEs) which will also need to be considered. Mr. LeMay said that there needs to be clarity in who is running the demand response programs since the industrial load staffs lack the time to work on participating in such programs. If participation requires significant effort they will not participate.

Mr. MacDonald observed that many of the themes required integration as they could not be usefully implemented in isolation. Mr. Picardi said that we need to define the objectives for the DAM, and then as we transition to DAM the other themes would be eliminated as we move to a market design that is efficient and competitive. Mr. Whyte added that it would be useful for market participants to have the opportunity to have input into the scoping of the studies for DAM, including timelines for study, report and dissemination. Mr. Campbell said that the IESO stakeholder engagement plans provide for this input and that specific notification would be given.

In relation to LSEs Mr. Boland asked whether the IESO's DAM plan would address the question of whether or not LSEs are required and/or desirable for the implementation of the DAM. Mr. Campbell said that the question would need to be addressed in the study. He noted that the OPA is looking into LSE models and a potential trial arrangement. The lead on pursuing LSEs is with the OPA. Mr. Boland commented that the inter-relationship between DAM and LSEs and LMP concerned him since it meant that there are now 3 major projects tied together instead of one.

Mr. Humphries asked if there was a process to control scope creep and ensure that projects remain on track. Mr. Campbell said that though the IESO had not formally gone back to revise a stakeholder engagement plan there was no reason that they could not do that. The existing process tries to deal with it through establishing a schedule which requires conclusions on certain matters by specific dates.

### **Demand Forecast Deviations**

At the outset of the discussion Mr. Campbell noted that the issue required careful consideration which might not be possible in the 15 minutes available for the presentation and discussion. Mr. Boland said he hoped to get through the presentation and allow people to provide comments by email or discuss it at the next meeting if the time proved inadequate at the meeting.

Mr. Boland said that OPG was active in raising this issue. It arose out of the settlement conference for the IESO's fee case. OPG, with the support of Energy Probe and Enersource, has particular concerns with certain performance measure aspects primarily related to the bias element. These companies support the formation of a working group to look at improvements in the demand forecast methodology and performance measures. The IESO presentation was to explain their efforts to improve their performance.

Mr. Doran made a presentation on the current IESO methodology, how the methodology might improve in the future, look at performance statistics, how the IESO measures against other ISOs, future challenges, and corporate performance measures.

In response to questions Mr. Doran explained that the implementation of the new tool, which is the same tool as used by OPG, would be in the 3<sup>rd</sup> quarter of 2007. It could not be implemented earlier due to the need to integrate with other tool replacements. The IESO uses hourly weather forecasts. Mr. Heaton of OPG said he had a concern with the bias measurement in that it would not show a bias if there was over forecasting for the first half of the month and under forecasting for the balance of the month as it is an absolute average. Mr. Doran said that the IESO would like to provide the raw data around forecasts and allow participants to use it as they wish.

Mr. Doran said that as the DAM is developed it would probably be more appropriate to look at a 9:00 o'clock forecast rather than at 15:30. Mr. LeMay commented that the number of zones and how temperatures are treated is critical. Mr. Doran agreed noting that there is a trade off between the forecasting for each zone and then amalgamating them into an Ontario forecast vs. the two-zone approach used today. To do, for example, 100 zones would require full-time staff and the cost would have to be assessed against the benefit of doing it. The IESO would like to look at 10 zones in Ontario to see if it offers any benefit in improved forecast error. This would need to follow the deliberations around LMP regarding appropriate zones.

Mr. Boland noted that the calculation of the bias in the manner described can lead to perverse incentives for the IESO. That is recognition in the early part of a period of an accumulated bias in one direction, intentional or not, would create an incentive to bias the forecast in the opposite direction for the balance of the period. Such an action can create dispatch inefficiencies. Mr. Boland envisaged the IESO, OPG, Enersource, and Hydro One being on the working group.

Mr. Boland then put the issue to a vote and the Committee supported the establishment of a working group recognizing that the working group should assess the costs and benefits associated with their work and use it as a guide as to how much work to do on it.

#### Motion

Be it resolved that the Committee supported the establishment of a working group to review the demand forecast methodologies used in the various time frame and assess the deviations which have resulted using this forecast methodology. The group shall report back to the SAC with its findings and recommendations. The resolution was unanimously passed.

#### Closing Remarks

In recognition of the members whose term is up; Mr. Boland thanked the members for serving on the Committee over the past year. He expressed his thanks to everyone for their valuable input, support and hard work. The meeting adjourned.