

IESO Stakeholder Advisory Committee

TO: IESO BOARD OF DIRECTORS

DATE: January 24, 2007

FROM: STAKEHOLDER ADVISORY COMMITTEE

SUBJECT: **BRIEFING NOTE**

The purpose of this memorandum is to update the IESO Board of Directors on the January 24th Stakeholder Advisory Committee meeting. The meeting was attended by all members of the Stakeholder Advisory Committee as well seven Board Members. In addition to the IESO Senior Management Update presentations were made on the Demand Forecast Deviations project, the Day-Ahead Market and the most recent Market Surveillance Panel Report.

Specific Actions by the Committee

The Committee wishes to advise the Board of the following specific action that was taken:

1. The Committee endorsed the recommendations of the Demand Forecast Working Group.

Discussion Highlights: Day-Ahead Commitment Process

Mr. Campbell advised that the IESO will prepare an annual review of the program's operation incorporating the input of both market participants and the IESO. He further advised that discussions about the evolution of DACP will be through the Day-Ahead Market stakeholdering process and will focus in part on what features market participants want or need.

Discussion Highlights: Ramp Rate Multiplier

Mr. Campbell reported that the IESO Board has decided to change the market rule governing the ramp rate. The market amendment proposal was posted just after Christmas in conjunction with the required period for comment. Following the comment period an impact statement of this market rule change and submitted comments must be provided to the OEB. The OEB then has the option on either its own motion or at the request of an interested party to ask the rule change be reconsidered.

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In making its decision the IESO Board recognised not all stakeholders concurred with the need to move to more efficient pricing signals at this time and to make the change by means of a market rule change. However, given the significance of this issue the Board decided to make it clear in the market rules how the ramp rate would be determined. Their belief was that the market rule amendment would enhance energy pricing transparency and provide a means for those stakeholders who did not accept the Board's decision to apply for a regulatory review by the OEB.

Mr. Whyte noted that there was never a SAC Committee discussion as to how the Board's decision on the issue would be delivered. Mr. Campbell said that an issue of this importance would normally be raised to the Committee but that this was an unusual circumstance. Mr. Bentz suggested that if there are deviations from the normal practice in terms of how the IESO implements policy these non-standard items should be considered by the SAC.

Mr. Campbell then provided a description of the transmission rights clearing account indicating that revenues originate from the auctioning of transmission rights and net congestion rents. He emphasised that the funds are not collected from consumers and that the market rules provide for the Board to review the surplus and its disposition over time. In this instance the IESO recognised the transitional cost to certain customer groups of making this market change and recommended to the Board that it cushion the impact by using this source of funds. Mr. Humphries expressed concern that while the payout is a one-time adjustment moving to a 3x ramp rate multiplier has an ongoing impact and that the impact calculation is not representative of the overall impact. Mr. Picardi asked for an accounting of the funds used from the transmission rights revenue account in order that marketers could be satisfied as to whether customers were entitled to funds from that account and in what amount. He indicated that there was extensive discussion of this issue among the marketers and that there were several sources for these funds such as transmission rights bidder payments or congestion surpluses that may belong to customers as well as other amounts in which marketers may have an interest. The IESO undertook to provide a written description of transmission rights account, the flow of monies and the threshold to deal with potential shortfalls. The IESO also offered to speak at the next SAC Committee meeting on the topic if requested by the committee.

Discussion Highlights: SMART Meter Initiative – MDM/R

The IESO has entered into a contract with IBM to develop and operate the MDM/R facility. The IESO is working closely with LDC's to coordinate the effort. Mr. Reeves suggested that at some point water meter readings should also be captured by the MDM/R. Mr. Bentz indicated that the immediate priority is to get the base level functionality working and get some portion of the target 800,000 SMART Meter installations for 2007 on time-of-use billing by year end.

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Discussion Highlights: Seams Issues

Mr. Finkbeiner indicated that the three highest priority seams issues the IESO is currently working on are: 1) MISO transmission release protocols; 2) enhancing existing protocols with New York; and 3) a four-party initiative involving MISO, PJM, New York ISO and the IESO to improve interregional dispatch to relieve system congestion. This was in response to a question from Mr. Picardi concerning the alignment of the IESO's seams issues priorities with neighbouring jurisdictions. Mr. McMillan indicated that the trading community will be bringing forward to the IESO suggestions for dealing with critical seams issues.

Discussion Highlights: Northern Pulp & Paper Electricity Transition Program

Mr. Campbell clarified that the payments to qualifying companies are tax-based and do not come directly from power consumers. Mr. Campbell noted that the conclusions on the pricing impacts of this change, as estimated by Navigant, are consistent with the IESO's own analysis. Mr. Reeves questioned if there was value in having the Committee assess the appropriateness of these programs. Mr. Bentz commented that this is a public policy initiative as opposed to an IESO initiative and that the matter could be discussed later in the session.

Discussion Highlights: Demand Forecast Deviation

Mr. Doran provided an update to the Committee from the Demand Forecast Working Group and presented their recommendations. Mr. Doran explained that the IESO did not survey forecast methodologies used in other jurisdictions but had completed some benchmarking relative other jurisdictions and noted the tools in use. The IESO is currently testing a neural network tool which is being used with good success by OPG and neighbouring jurisdictions.

Mr. Horrobin enquired as to expected improvement in forecast accuracy resulting from the implementation of the Working Group's recommendations. Mr. Doran advised that the expected improvements are in the range of 0.6-0.8% and that model error with most forecasting tools is in the 1% range. The IESO does not expect to do better than 1% day-ahead forecast error. Current forecast error performance is approximately 2%.

In response to a question from Mr. Dorey, Mr. Doran advised that the IESO needs the most accurate forecast it can obtain as an input to the Day-Ahead Market (DAM). An accurate demand forecast is dependent upon the forecast of accuracy of demand response and TOU impacts. Mr. Doran also advised that the IESO plans to replace its current forecasting tool in the fall of 2007 and will commence publication of forecast information and accuracy as committed to stakeholders. The IESO will also publish its recommendations on changes in corporate performance measures and will bring the associated comments received to a future SAC Committee meeting.

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Mr. Bentz asked for the total cost of the Working Group's recommendations relative to the expected improvement in forecast accuracy. Mr. Doran advised that the one-time costs for enhancing forecast accuracy are approximately \$ 100,000 and the incremental costs are approximately \$ 2,000/month to achieve a 0.6-0.8% improvement in forecast accuracy. Ms. Girvan commented that there would be an impact on forecast demand due to the implementation of SMART Meters. Mr. Doran advised that because the changes will be implemented gradually over time the forecasting tool is expected to capture alternations in demand without separate input to the tool.

The Committee endorsed the recommendations of the Working Group and said that it will follow up regarding the implementation of the recommendations.

Discussion Highlights – Day-Ahead Market

Mr. Kozlik delivered a comprehensive presentation to the Committee on the DAM project and the associated stakeholder engagement plan. Mr. Kozlik indicated that the IESO wants full participation in this stakeholder event and that some of the groups that may benefit from DAM have not be well represented to date. In a response to Mr. Humphries, Mr. Campbell indicated that the DAM plan is targeting funding of the consumers' side and that the IESO is proposing to take funding guidelines to the IESO Board for approval.

Mr. Kozlik agreed with Mr. Dorey that the IESO needs to collect and analyze information from stakeholders to fully assess the potential benefits and costs associated with the DAM. In response to a question from Mr. Picardi, Mr. Kozlik indicated that the IESO would study the benefits of LSE's, locational marginal pricing and virtual markets for establishing a correlation between the day-ahead and real time prices as part of the DAM project. At this point the outcomes of the study are uncertain.

Mr. Bentz noted that RPP customers who on a fixed energy charge will migrate to a TOU rate structure that is also fixed, which essentially insulates them from the wholesale market. Mr. Kozlik commented that RPP customers may have no interest in DAM but the implementation of SMART Meters provides them with additional options.

Mr. Cary (Sithe) recommended that the IESO conduct joint stakeholder events earlier in the process than currently contemplated. Mr. Cary and Mr. Rothman (Navigant) both endorsed including an educational component as part of the stakeholdering exercise and conducting more open meetings. Mr. Alpajaro (Bruce Power), Mr. Horrobin and Ms. O'Connor (TransAlta) favoured the creation of a DAM Working Group as part of the IESO's stakeholdering model with the Generator sector as a majority suggesting the formation of a Working Group. Mr. Campbell responded that the IESO has not committed itself to only one type of stakeholder process. The IESO has received strong input that an educational component is key and should involve participants from a sector coming together to learn from varying perspectives. The IESO will continue to be

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informed by participant input and expects continued evolution of the stakeholding process. The IESO is endeavouring to strike an appropriate balance between the process requirements and the end goal.

In summarising the discussion Mr. Bentz suggested that the IESO consider the formation of a DAM Working Group.

Discussion Highlights: Market Surveillance Panel Report

Mr. Penn introduced the new Chair of the Market Surveillance Panel (MSP), Mr. Neil Campbell, and provided an overview of the most recent MSP Report.

In response to several questions and observations by Mr. Dorey concerning the validity of historic or current nodal prices for making investment or long-term consumption decisions given the OPA's mandate to eliminate congestion, Mr. Penn commented that the MSP is highlighting nodal prices so everyone can make the right choice of where to invest or fix transmission.

Mr. McGee (Energy Profiles) commented that in the absence of proper price signals to loads, demand response programs provide great value at this time though in a perfect economic market they may not be warranted. The demand response programs initiated by the IESO and the OPA are just the early stages of developing demand response as a very necessary part of this market.

Mr. Hunter (Manitoba Hydro) raised a concern regarding the validity of the zonal price map given an IESO disclaimer that nodal prices do not represent actual prices and a Navigant Consulting study conclusion that nodal prices do not represent the price that would be paid under LMP in the Northwest zone. Mr. Penn responded that though there are issues with losses, the magnitude of the price differences indicated that price differences are caused not by losses but by congestion.

Mr. Lourie questioned the MSP's concern with demand response programs at a time when peak demand is increasing. Mr. Penn responded that in theory it is more efficient to let natural prices flow and allow customers to make the proper consumption decisions as opposed to paying load through demand response programs to stay off the system.