

IESO Stakeholder Advisory Committee (SAC)
Minutes of Meeting
April 4, 2007
9:30 am
Toronto Congress Centre - Donald Sutherland Room

Advisory Committee Members in Attendance:

Mr. Brian Bentz, Chair (representing Distributors)
Mr. Bruce Campbell (representing IESO)
Mr. Steve Dorey (representing Transmitters)
Ms. Julie Girvan (representing Residential Consumers)
Mr. Richard Horrobin (representing Generators)
Mr. Mike Humphries (representing Embedded Industrial Consumers)
Mr. Paul McMillan (representing Marketers/Brokers)
Mr. Matthew Picardi (representing Marketers/Brokers) – present via conference call
Mr. Doug Reeves (representing Distributors)
Mr. Chuck Stradling (representing Commercial Consumers)
Mr. Daniel Whyte (representing Generators)

Advisory Committee Members Absent:

Mr. Bruce Lourie (representing Environmental)
Mr. Colin Osborne (representing Wholesale Consumer Market Participants)

Presenters:

Mr. Bill Limbrick (IESO)
Ms. Rosanne Martin (IESO)
Mr. Paul Murphy (IESO)
Mr. Darren Finkbeiner (IESO)
Mr. Terry Young (IESO)
Mr. Jamie Watt and Mr. Will Stewart (Navigator)

IESO Board Members in attendance:

Ms. Glenna Carr (Chair)
Mr. James Hinds
Mr. Howard Shearer
Mr. John Wiersma

Introduction – Brian Bentz

Mr. Bentz welcomed everyone and mentioned that the Committee had a joint session with the IESO's Board of Directors following the January 24th meeting. Mr. Bentz thanked the Board of Directors for their ongoing commitment to the stakeholdering process. Mr. Bentz found the joint session helpful in understanding the Board perspective, its requirements, and how the Committee can better assist the Board in its decision making.

Agenda Item No. 2: Feedback from February 8, 2007 IESO Board Meeting:

Mr. Bentz attended the Board meeting on behalf of the Committee.

Mr. Bentz summarized the items discussed. They included a discussion of the day-ahead market, the desire of the Committee to move forward on the day-ahead market as expediently as possible, and to have an annual review of the day-ahead commitment process (DACP) which would include market participant and stakeholder input.

On the twelve times ramp rate, Mr. Bentz raised the issue that the SAC had not been consulted on the decision to treat the ramp rate decision as a market rule change. SAC requested that in the future for issues that are resolved in a non-standard way, such as this it would like to be consulted. The Board responded by noting that the time lines associated with the rule review made it practically impossible to consult further with the SAC.

With respect to forecast accuracy and implementation of a new tool, the Committee endorsed the IESO's recommendations.

On the day-ahead market (DAM) stakeholder plan, the Board was advised of the request for an education component to be incorporated into the stakeholder plan and that consideration is given to forming a working group.

Mr. Bentz commented that the agenda, which was full, consisted of two types of items: the first type was where the Board or staff sought the Committee's input and advice, the second was where informational items were presented. Mr. Bentz asked the Committee members to consider the usefulness of informational items, and said that he would come back to this issue later in the day.

Agenda Item No. 3: Senior Management update – Bruce Campbell

Picking up on the last point, Mr. Campbell said that IESO appreciates the time spent by stakeholders on the process and would like to ensure that the time is well spent.

(a) Review of Action Items from January 24 meeting

This list has been posted and circulated and can be found at:

<http://www.ieso.ca/imoweb/pubs/consult/sac/sac-20070404-Action-Items.pdf>

Mr. Campbell spoke to a number of items on the list including the revision of the DAM stakeholder plan to include open stakeholder meetings. The first one will be April 11 and it will address the request of the Committee for an educational session. At this time, the stakeholder plan does not contemplate the establishment of a formal working group.

(b) Reliability Standards Standing Committee

The first meeting was held on March 30th and one of the issues discussed was the OEB's remand authority. Stakeholders have expressed a need for a timely interim remand mechanism pending the anticipated legislative amendment to formally grant the OEB remand authority. Though the Ministry has indicated that they want to deal with this issue as soon as practicable, the IESO cannot estimate when it will be implemented. Mr. Campbell encouraged stakeholders to continue to support the proposed legislative amendment. In the interim it is not anticipated that a reliability standard would suddenly create an issue given the lengthy stakeholdering and approval process associated with the development of new standards. The Reliability Standards Standing Committee has discussed a range of views as to how best to deal with any issues which may come up in the interim.

(c) Stakeholder Plans – 2008-2010 Business Plan and Corporate Performance Measures

Mr. Campbell advised that the stakeholder plans have been published and input is requested by April 18th to be discussed at the next SAC meeting. The target dates around closure of each element of the stakeholder process will be made available.

(d) Day-Ahead Market

The revised stakeholder plan has been posted and was discussed at the last SAC meeting. Based on comments received at that meeting, a number of open stakeholder sessions have been added to the plan. As stated in the stakeholder plan, questionnaires have been circulated and responses received. The IESO will follow up directly with those who submitted responses to obtain further input. Mr. Campbell stated that the IESO is looking to stakeholders to carefully consider the benefits that an enhanced day-ahead arrangement would provide for them given today's circumstances. The IESO wants to ensure that if the IESO provides anything, it will be of benefit to stakeholders. This information will guide what, if anything, the IESO puts forward for enhanced day-ahead arrangements. The IESO is not coming forward with a grand design, but wants to respond to the needs that people see in the market given the nature of the market as it is today.

Mr. Dorey asked whether a cost benefit analysis would be done for the various DAM options identified. Mr. Campbell said that the IESO will do it on several levels. If the costs and benefits can be quantified through a good analytical approach the market evolution and analysis group of the IESO is set up for doing this type of analysis and will play a more prominent role in these types of initiatives. There may also be costs or benefits that people see that are not readily quantified and the IESO would want to record them as well. The IESO is looking at the cost/benefit in terms of the overall benefit to the province and then looking at the implementation costs and potential bill impacts from the various perspectives in the market.

The April 11th session will not include a strawman as we have not reached that stage. Mr. Horrobin commented that the generator community felt that working groups are a useful approach. Mr. Campbell replied that at this stage it is felt that gathering information from individual stakeholders is beneficial and a working group may be considered at a later time.

(e) Update on Seams Issues/Efforts

<http://www.ieso.ca/imoweb/pubs/consult/sac/sac-20070404-Seams-Issues.pdf>

Mr. Campbell provided an update on work to address ongoing seams issues on which a briefing note was distributed. These issues are being discussed at the Inter-tie Trading Standing Committee on a technical level. In response to a question, Mr. Finkbeiner advised that at the last session of the standing committee, one of the traders raised the issue of investigating counter intuitive day-ahead and real-time failure charges when the failure of an export actually benefits the market.

(f) Agency Review Panel

The first issue the Panel will be dealing with in its terms of reference is executive compensation. Information has been submitted to the Panel and they will be reporting back to the government in the near future. The Panel will then proceed on to the remainder of their terms of reference but the timing on that part of the work is not known.

(g) IESO 2007 Rate Case

The OEB issued its decision on the IESO's rate case on March 21st, approving the settlement agreement. The key features of the settlement agreement include:

- a reduction in the usage fee from \$0.909/MWh to \$0.815/MWh;
- the refund of \$12.7 million accumulated from operating services (which will appear on invoices issued on April 17th); and
- the revenue requirement of \$140 million.

As part of the approved settlement agreement, the IESO will establish a Consumer Forum. The terms of reference, workplan and framework will be defined within 45 days of the Board's decision. The stakeholder plan associated with this forum will be posted within the next few days for comment. The terms of reference will not be issued at the same time as it gives the IESO the chance to go out and talk to a number of consumer representatives. It is anticipated that the terms of reference will evolve through the course of implementation.

In response to a question Mr. Campbell clarified that the capital expenditure level is fairly stable and is rolled into the revenue requirement by way of amortization and depreciation. A question was asked about whether the reduction in the IESO fees will be seen by retail consumers. Mr. Campbell undertook to follow up on this question.

(h) Market Rule Amendment – Ramp Rate Multiplier

AMPCO initiated an application for review by the OEB of the ramp rate market rule. The proceeding at the OEB is concluding with the filing of arguments between the parties and there is a 60-day period that is permitted under the statute of that review that expires on Tuesday April 10. The Board will make a decision on that date and reasons may be released with the decision or at a later date. In response to a question regarding the resource expenditure by the IESO on this appeal and its impact on other work at the IESO, Mr. Campbell noted that it was substantial because it included retaining counsel, and it took a great deal of the time of Mr. Campbell, Mr. Kozlik, Dr. Rivard and other IESO staff. Its greatest affect was that it had delayed follow up on the questionnaires regarding day-ahead discussions.

Orientation Session for Committee Members

Mr. Humphries commented that the orientation session offered to SAC members by the IESO was very useful in understanding what the IESO does, as well as in understanding the context of the issues that other members have.

Item No. 4: Smart Meter Initiative – Meter Data Management Repository (MDMR)

Mr. Bentz said that 800,000 meters will be installed by the end of 2007 or early 2008, approximately 20% of the province. There are a number of components of this initiative, the smart meter itself, the LDC component that interrogates the smart meter, and the central repository to hold the information. The IESO has been charged with the project management for building the repository for the metered data. The IESO project is subject to oversight of the Program Advisory Committee and not the SAC. At the request of the Committee Mr. Limbrick gave an information presentation on the smart metering initiative.

The presentation Mr. Limbrick can be found at:

<http://www.ieso.ca/imoweb/pubs/consult/sac/sac-20070404-SMSIP.pdf>

Mr. Limbrick said that there are two ways – telephone or web - that the metering information can get back to consumers. Information is available after 8 am the day after the readings occur. The IESO will be providing a web service for any LDC that would like to retrieve its information and produce that information back to their customers via their own web site. LDCs are still debating whether they would like the IESO to provide this service to them from a centre with a generic web presentation tool. Mr. Limbrick clarified that the MDMR is not an asset management system and the data will not be received into the system until midnight of each day. Different LDCs are experimenting with various devices to provide real-time data. The government has not declared a date to go live with time-of-use rates.

Mr. McMillan questioned whether the MDMR depository would be communicating with the systems of records for each LDC. The expectation is that the IESO will sum up the meter reads,

put them in their time-of-use buckets, and then give them to the LDC so it would not be necessary for the LDC within its own system of record, to maintain data at the hourly granularity. Mr. McMillan commented on the difficulty of keeping the scope of work and associated costs under control. Mr. Limbrick said that the supply chain can provide the four million meters between now and 2010; the project is currently under budget, the total value of the IBM contract is \$43 million, and a cost-benefit analysis was undertaken in 2004 prior to IESO involvement by either the Ministry or the OEB separately or in collaboration.

Mr. Bentz asked whether the IESO has talked to all the retailers that are offering fixed price, fixed term contracts about when consumers go to time-of-use billing and whether he has anticipated the retailers going to some type of time-of-use offering on retail pricing to consumers. There are going to be some technical limitations that apply to retailers on day one of the program. Conversations are going on between the IESO and the OEB regarding the treatment of smart meters as interval meters and that implies a limitation on the sort of contracts that can be offered on day one by retailers. The IESO has been engaged with retailers through working groups.

Item No. 7: Prudential Review

Ms. Martin delivered a presentation to the Committee on the recommendations from the prudential review and provided the Committee with an opportunity to provide further input. The presentation reviewed the stakeholder engagement process, the goals of the review, the recommendations being taken to the Board and next steps.

The default levy is based on the credit rating; the financial health of the individual market participant. Ms. Martin confirmed that the million dollars in savings in banking fees are in relation to the market participants' banking fees. There have only been four market participants since market opening that have either gone bankrupt or are in the process of liquidation; they are from the steel and pulp & paper sectors. Ms. Martin also said that the majority of market participants are not rated. Out of 80 LDCS, 69 are not rated and 11 have public ratings. On the load side, of the 101, 82 are not rated and 19 have a public credit rating.

Mr. McMillan asked if the IESO would look from quarter to quarter at the overall exposure across companies both rated and unrated to get a sense of whether the overall credit exposure is moving up or down based on the level of the transactions and how counterparties are moving. The IESO monitors the news daily for changes. A follow-up question dealt with stress testing and when the default is calculated, did the stress test look at the movement and volatility of prices throughout the year. The stress test is against the probability of bankruptcy because the reasons for bankruptcy are less attached to the price of electricity than they are to other factors within a business.

In response to a question about the application of this procedure to all IESO activities, Ms. Martin stated that the financial transmission market is run under a different prudential

framework because it is a separate market that is settled separately. This means that as a wholesale participant and a financial participant, you cannot offset your exposure but it is something the IESO can consider looking at. It would be considered a market design change and it is out of the scope of this review. Mr. Horrobin commented that the prudential review was discussed at the APPrO Board meeting in February and there were concerns raised around the treatment of good payment history, particularly as one moves through different economic cycles.

Ms. Girvan supported the recommendations seeing the changes as positive from the perspective of customers and LDCs.

Mr. Bentz then asked the Committee to give their input on the recommendations put forth. Mr. Whyte supported the recommendations with an amendment that a review be conducted every two to three years, not five. Mr. Horrobin supported the recommendations and the amendment suggested by Mr. Whyte. Mr. Dorey also supported the recommendations and the amendment. He raised the concern that good payment history is not necessarily a good indication of future performance. An alternative recommendation on this was presented to the IESO previously. Mr. McMillan also supported the recommendation and the amendment but wanted it noted that he heard the IESO agree to review the separate treatment as it relates to Financial Transmission Rights. Many of the Committee members commented on the excellent work done by the IESO. Mr. Bentz summarized the thoughts of the Committee by stating there is a consensus and the Committee endorses the recommendations with a more frequent review of the overall policy. Mr. Reeves expressed his opinion that it is appropriate that LDCs continue to be treated differently. As regulated monopolies, LDCS have a history of paying power bills monthly for decades, not just since market opening, but for decades prior to that. It is appropriate that there is a reduction in the prudential requirements for LDCs and it could move more in that direction without any real increase in risk.

Item No. 6: Ontario Reliability Outlook

Mr. Murphy delivered an overview presentation on the most recent Ontario Reliability Outlook which concluded that the outlook for the future is much improved for a number of reasons. There is more generation under contract with the Ontario Power Authority (OPA), the decision to defer the closing of coal fired generation stations and the conservation and demand management programs that are being pursued by local distribution companies and the OPA. The Ontario Reliability Outlook also identified areas of concern such as the approvals process and that a lot of the generation coming on line is non-dispatchable.

Mr. Bentz asked about transmission planning and the environmental assessment process and the effect they would have on the supply outlook. Mr. Murphy responded that transmission constraints lower the availability of the installed capacity by making some of it unavailable. For the Bruce transmission, if that transmission is not there when generation becomes available then there will be constraints and an amount of the installed capacity will not be available. There are

a number of short actions that are being implemented such as transmission enhancements to the existing system. This is why it is important to obtain approvals and get the transmission in place to avoid restrictions on available capacity when you need it.

Mr. Bentz questioned whether the IESO has been working with the OPA on how to maintain the stability of the grid with taking Nanticoke out of service. Given that Nanticoke is a key location many options are being explored and the OPA is well aware of the importance of Nanticoke. Mr. Whyte noted that he would like to see an update from the IESO on ancillary services reliability. The IESO is taking a look at ancillary services including load following capabilities and requirements within the province. Mr. Horrobin wanted to know the level of confidence the IESO has in the OPA to meet the short term and short to mid-term targets for conservation and demand management. A report on the OPA's progress in this area is anticipated and it will provide a more definitive assessment. The IESO would have liked to have the programs delivering their full capabilities by this summer and that is probably not going to be the case. In 2008, for the first time, the forecast is reflecting some of the expectations from the OPA.

Item No. 5: Market Surveillance Panel Response

Mr. Finkbeiner summarized the action items around the market surveillance panel (MSP) report and noted that the IESO has committed to make public recommendations or responses to the MSP recommendations from the various MSP reports and to also create a tracking mechanism for these responses and the status of the recommendations. It is expected that by the end of April a tracking document will be available on the IESO web site based on the last two MSP reports with additional tracking of earlier MSP reports being added at a later date.

The IESO has responded to the four recommendations from the last MSP report. This information can be found at:

<http://www.ieso.ca/imoweb/pubs/consult/sac/sac-20070404-MSP-response.pdf>

Item No. 8: Customer Survey

Mr. Stewart from Navigator presented the findings from the Customer Survey. He described the type of survey used and summarized the key findings from the survey.

The presentation from Mr. Stewart can be found at:

<http://www.ieso.ca/imoweb/pubs/consult/sac/sac-20070404-Navigator-pres.pdf>

The Customer Survey can be found at:

http://www.ieso.ca/imoweb/pubs/corp/reports/MPSurveyResults_2006.pdf

Mr. Whyte asked 3 questions: 1) if the OPA and the IESO were still considering coordinating their stakeholder engagement efforts; 2) if Navigator was able to gauge the relative approval

ratings or leadership ratings of the OPA, the Ministry of the OEB; and, 3) whether or not a member of the SAC represents a sector or is representative of a sector. There is confusion as to whether the SAC is a representative of or a representative. Mr. Campbell commented on coordination of the stakeholder process with the OPA. The IESO has had discussions with the OPA at a high level on this issue and they concluded that given the task of the OPA in relation to the IPSP, the OPA would need to engage a broader audience and ask different questions. There has been significant co-ordination about market development. Overall the objective is to avoid overlap but make sure that when both parties are required to be involved they are. The survey did not address the approval ratings of other organizations. Survey comments confirm there is confusion about whether SAC members are representative of or represent a sector.

Mr. Humphries asked if all those interviewed were all direct market participants and were proportionally representative. All of those interviewed are direct market participants and the survey ended up with more LDCs because it was difficult to get some of the other categories of customers to participate.

Mr. Young presented on the IESO's action plan in response to the survey which focuses on relationship and satisfaction with the IESO, the confidence level and the issues that were raised in the survey.

The presentation from Mr. Young can be found at:

<http://www.ieso.ca/imoweb/pubs/consult/sac/sac-20070404-Survey-Action-Plan.pdf>

Mr. Humphries enquired about how to survey the embedded customers. The IESO wanted to complete the market participant survey first and then will look at ways to reach embedded customers.

Mr. Dorey noted that the action plan did not appear to address the two principal concerns of stakeholder engagement and rule making. He enquired whether more research has been completed to determine why stakeholders are unhappy with these processes and what can be done. Mr. Stewart of Navigator responded that through their survey they concluded that the stakeholder process and rule-making concerns were closely linked. It was difficult to determine whether it was, for example, Hydro One being unhappy that they did not get what they wanted on a particular rule, or whether they felt that they were not consulted appropriately. Mr. Whyte stated that we are really interested in the deviation from the norm and how deviant the IESO is from the norm of customer satisfaction. Mr. Stewart said that the research was qualitative and not quantitative and as such they do not have a standard deviation number from a normative value. Qualitatively this is an organization that is performing well, that is meeting its customers' expectations and people are generally happy with. Based on the qualitative, some of the unhappiness around stakeholdering and rulemaking is because they advocated for something, they didn't get what they wanted so the process is bad.

Mr. Alpajaro said that when this item was discussed at the Technical Panel it was determined that most of the scores on the stakeholdering and rulemaking were 7s instead of 8s so although they may be improvements, it is not as bad as it is being portrayed.

Mr. Campbell said that there is a meeting of the ISOs and we will raise the item to try and get a relative measure amongst the ISO's of customer satisfaction related to stakeholder engagement and rule making. Mr. Campbell stated that on the issue of Advisory Committee representation, Committee members should bring their intelligence on the diversity of views in the sector so that it is not just the individual position being represented.

On the issue of how the Committee members represent their sectors, Mr. Bentz noted that every constituency has a common interest but not necessarily a homogeneous interest. Mr. Dorey stated that the Committee should have a larger discussion of rule making processes in other jurisdictions and sectors, and consider whether there are things that can be done to improve.

Agenda Setting

Mr. Bentz discussed the item of agenda setting and wanted to know from the Committee if there was value in having information items on the agenda. Mr. Humphries stated that these items provide useful background and context on items that they may well be asked to provide input on at a later date. Mr. Reeves supports having information items on the agenda. Mr. Bentz summarized that information items are useful and that the Committee will exercise discretion in setting the agenda.

Item No. 9: Feedback from Joint meeting

Mr. Bentz stated that he found the meeting very useful and productive; it helped the Committee understand how it can better serve the Board in its role as advisors. Mr. Bentz sees himself as representing his sector but recognizes that there is a diversity of views within the sector and that needs to be respected. Mr. Bentz summarized the discussions that took place at the joint meeting including incremental market evolution, the general consensus for a day-ahead market initiative, looking at the broader electricity market to see if we can coalesce a vision around market evolution over the short to medium term, measuring effectiveness of the Committee's ability to represent their sectors and the ability to stakeholder.

Mr. Humphries found the session worthwhile. He sees the Committee and the IESO as jointly being a vehicle for putting forward a consensus vision of where markets should be. He is concerned, however, about the value of doing this unless agreement is obtained that sectors will not run around and play politics after they've had their input and everybody agrees that that is the vision. Acknowledging this risk, Mr. Bentz suggested that the focus be on the day-ahead market where there is consensus, see how that evolves in the near future, and undertake some background work on market evolution. Mr. McMillan noted that given the time period we are

in, in this province with an election pending, it would be difficult to take forward a vision; incrementalism makes sense. The focus needs to be on areas that can be brought forward such as a day-ahead market and others, for example the successful work on prudentials.

Mr. McMillan also found the joint session to be valuable; he noted the strong diverse background and qualifications of the Board members and the strengths of the stakeholding process. Though not perfect, it appears that the stakeholding process is better than in other jurisdictions. Mr. Whyte commented favourably on the interactions and discussions between the Board, stakeholders and IESO staff.

The meeting adjourned.