

IESO Stakeholder Advisory Committee

TO: IESO BOARD OF DIRECTORS

DATE: April 26, 2007

FROM: STAKEHOLDER ADVISORY COMMITTEE

SUBJECT: PRUDENTIAL REVIEW DISCUSSION AT THE APRIL 4, 2007 SAC MEETING

This memorandum is to advise the IESO Board of Directors that the Stakeholder Advisory Committee has considered the recommendations from the prudential review. The Committee supported the recommendations with an amendment to review the overall credit policy more frequently (e.g. every two to three years). Mr. McMillan noted that the IESO agreed to review the prudential treatment for Financial Transmission Rights.

Summary of Stakeholder Advisory Committee positions:

Mr. Bentz noted a general consensus from the Stakeholder Advisory Committee in support of the prudential recommendations. Many of the Committee members commented on the excellent work done by the IESO. Mr. Bentz asked for any further comments to be brought forward and the following comments were noted:

Mr. Steve Dorey (representing Transmitters) - Mr. Dorey supported the recommendations and the amendment suggested by Mr. Whyte. 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.

Ms. Julie Girvan (representing residential consumers) – Ms. Girvan supported the recommendations seeing the changes as positive from the perspective of customers and LDCs.

Mr. Richard Horrobin (representing Generators) - Mr. Horrobin supported the recommendations and the amendment suggested by Mr. Whyte.

Mr. Paul McMillan (representing Marketers/Brokers) - Mr. McMillan supported the recommendations and the amendment suggested by Mr. Whyte but wanted it noted that he heard the IESO agree to review the separate treatment as it relates to Financial Transmission Rights.

Mr. Doug Reeves (representing Distributors) – 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

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prudential requirements for LDCs and it could move more in that direction without any real increases in risk.

Mr. Daniel Whyte (representing Generators) - Mr. Whyte supported the recommendations with an amendment that a review of overall credit policy be conducted every two to three years, not five.

Summary of Preceding Discussion

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 raised a caution about using good payment history as a reflection of future performance. 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 to echo the concern raised by Mr. McMillan, there were concerns raised around the

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treatment of good payment history, particularly as one moves through different economic cycles.

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)