

IESO Stakeholder Advisory Committee

TO: IESO BOARD OF DIRECTORS

DATE: September 7th, 2007

FROM: STAKEHOLDER ADVISORY COMMITTEE

SUBJECT: **BRIEFING NOTE**

The purpose of this memorandum is to update the IESO Board of Directors on the highlights of the discussion from the August 22nd Stakeholder Advisory Committee meeting. All members of the Stakeholder Advisory Committee were in attendance at the session with the exception of Messrs. Bruce Lourie, Matthew Picardi and Colin Osborne. As well seven IESO Board Members also were in attendance and Mr. Bentz thanked them for their presence.

Discussion Highlights: Senior Management Update

1. Mr. Campbell advised that the change to the Ramp Rate Multiplier will be implemented on September 12th. He further commented that it is a compliment to all parties that a path forward was found. The IESO plans to review the effect of the Ramp Rate change to determine if the forecast system benefits are realised.
2. Mr. Campbell reinforced that financially, the activities of the SMART Metering Entity will be completely segregated and separate from wholesale market operations. Mr. Campbell clarified that the SMART Meter Entity is not expected to be a separate legal entity and that the IESO recognises that it is important to be fully transparent about the costs of this program. Mr. Campbell further commented that the IESO is implementing the project as efficiently as possible but that in implementing a Government policy decision the IESO has not undertaken a supporting cost-benefit analysis.

Mr. Bentz noted, with respect to the implementation of Time-of-Use Rates, that it would be administratively very challenging for Distributors if the Government allowed customers to selectively choose their implementation date versus a universal implementation date.

Discussion Highlights: Business Plan

Mr. Whyte asked if the downward trend in IESO rates evidenced in the Business Plan could be put into perspective. Mr. Sergejewich responded that ISO rates in the PJM and MISO jurisdictions are lower while the New York ISO rates are higher, but that the rates are dependent upon the amount of load. The IESO is undertaking a benchmarking review using the new FERC uniform system of accounts. Mr. Campbell added that the IESO will be publishing the history of IESO costs mapped against the FERC uniform system of accounts. He further commented that the IESO's CFO, Mr. Gary Sherkey, has

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been very active with the other ISO's in leading this effort to make the best business use of this comparative data. Mr. Campbell noted that the differences in markets, products, settlements and business models make relevant comparisons difficult.

Mr. McMillan asked how the IESO plans to deal with the large number of pending staff retirements. Mr. Sergejewich replied that the IESO's situation with respect to retirements is similar to other electricity industry players and that a leading cooperative education program has been established with partner universities.

Mr. McMillan further commented that given the increased volume of work in system impact assessments and connections, the IESO should consider staff increases or a reallocation of staff, particularly in an environment where the costs for large infrastructure projects change frequently. Mr. Sergejewich and Mr. Campbell responded that the IESO continually assesses appropriate staffing levels and have specifically considered the need to infrastructure renewal during the business planning process.

Mr. Butters (APPrO) commented that in his view the IESO's vision of a vibrant Ontario economy is a more appropriate vision for the provincial Ministry of Economic Development or the Ministry of Energy. He stated that the IESO should have a vision for a fair, efficient and openly competitive market that would in turn lead to a vibrant economy.

Mr. Horrobin requested an elaboration of the IESO's goals for 2008 and what other initiatives were contemplated including the introduction of Locational Marginal Pricing (LMP). Mr. Campbell commented that the introduction of LMP is a matter of public policy and that the Government does not anticipate this market feature in the near future.

In response to a question from Ms. Girvan it was confirmed that the forecast operating costs of a Day-Ahead market mechanism would not have a significant impact on the IESO's operating costs.

Mr. Bentz enquired if cost allocation or transfer pricing assessments have been completed in terms of allocating overhead costs between the core IESO business and the SMART Meter business and if this has been captured in the last IESO rate submission to the OEB. IESO staff commented that this was not included in the last OEB rate submission as SMART Metering was a standalone project and quite separate. Going forward the IESO will track all SMART Metering costs separately.

In response to a question from Mr. Kerr (Coral Energy) it was clarified that following discussions over the past year the approach to market evolution is an incremental one on an issue by issues basis. Mr. Lapierre (Brookfield) commented that from his perspective the development of the Ontario market is lagging other markets.

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Mr. Campbell responded that Ontario is a unique environment and that the pressures and considerations are different from other jurisdictions.

Mr. McMillan noted that it would be useful to link the goals and objectives of the Business Plan to Corporate Performance Measures.

Discussion Highlights: Corporate Performance Measures

Mr. Sergejewich indicated that the proposed Corporate Performance Measures will be discussed at the next SAC meeting (October 30th).

Discussion Highlights: Market Surveillance Panel Report

Mr. Bentz asked if the IESO should consider stopgap measures to reduce price volatility. Mr. Neil Campbell responded that the Market Surveillance Panel (MSP) analyse/assess the efficiency of the market based on its current design and identify improvement opportunities.

Mr. Bentz asked if there would be a review of the Day Ahead Commitment Process with respect to import offer guarantees in off-peak hours. Mr. Bruce Campbell responded that the review is scheduled for November.

Discussion Highlights: Cost Benefit Analysis

Mr. Whyte expressed concern on behalf of the Generator Community regarding the use of impact weightings in a cost benefit analysis as the weighting can then determine the outcome of the analysis. Mr. Campbell noted that the IESO has to date not used weightings and if there were to be employed he would expect it to be in a transparent manner as part of the sensitivity analysis. Mr. Campbell indicated that the starting point of any cost benefit analysis will be the un-weighted values.

Mr. Humphries mentioned that many initiatives are steps towards an end and that incremental individual initiatives may not deliver net benefits. Mr. Campbell commented that a cost benefit analysis is not the end of the decision making but rather one important input to the process.

Discussion Highlights: Day-Ahead Market

Mr. McMillan enquired if the Day Ahead Commitment Process (DACP) was an alternative to the Day-Ahead Market (DAM) proposal. Mr. Kozlik replied that there are a variety of options available but if you forego other alternatives then the DACP process will potentially continue. Mr. Kozlik confirmed that following more detailed design work a cost benefit analysis will be completed and a recommendation developed for a go-forward decision. One of the questions to be answered, with the benefit of stakeholder input, is whether there is a continuing need for DACP.

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With respect to the DAM Discussion Paper, Option 3 contemplates that LSE's will be given the option to participate in the Day-Ahead Market for their retail load. Mr. Bentz asked what percentage of LSE load typically clears in the Day Ahead Market. The response indicated that the majority of the LSE load clears Day Ahead.

Mr. Heaton (OPG) expressed concern that Natural Gas Generators will continue to be exposed to real time dispatch volatility, which will not be addressed by minimum run-time guarantees.

Mr. McMillan questioned whether the various DAM options could have a potentially different budget impact that what is currently captured in the IESO Business Plan. Mr. Kozlik responded that given the continuation of the real-time market, and the more limited scope of the current project, the costs are expected to be significantly less than those first forecast in 2003-2004.

Mr. Kozlik indicated that a high-level cost benefit analysis of the options presented will be available for review at the November SAC meeting. Mr. Dorey suggested that additional time may be required for stakeholders to effectively comment on the cost benefit analysis in advance of the November meeting.

Mr. Kerr (Coral Energy) suggested that Options 4 & 5 still need to be considered. Mr. Kozlik cautioned that the current environment, which does not provide for LMP, is not supportive of big steps in market evolution but is more conducive to incremental approaches.

Discussion Highlights: New Business

Mr. Radan (Aquilon Power) stated that in his view the Ontario Market is not evolving as quickly as other markets and SAC should be asking why. Mr. Radan also brought forward a separate issue relating to wheeled transactions which will be dealt with outside of SAC in separate meetings and working groups. A conference call was subsequently held on August 24th on the wheeled transaction issue.

Discussion Highlights: Wrap Up

SAC members were invited to attend the next IESO Board of Directors' meeting on September 7th. SAC members were also reminded that the next SAC meeting is scheduled for October 30th.