

# IESO Stakeholder Advisory Committee

TO: IESO BOARD OF DIRECTORS

DATE: September 5<sup>th</sup>, 2008

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 20<sup>th</sup> Stakeholder Advisory Committee meeting. All members of the Stakeholder Advisory Committee were in attendance at the session with the exception of Messrs. Bruce Lourie and Chuck Stradling. As well eight IESO Board Members were also present and Mr. Bentz thanked them for their attendance.

## **Discussion Highlights: Senior Management Update**

### **(A) Review of Action Items from June 4<sup>th</sup> SAC Meeting**

The only action item was a request that SAC send a letter to the Minister of Energy, requesting the release of the discussion paper on load serving entities. Mr. Bentz advised that at a Committee pre-meeting it was decided to forego this request. The broader questions of messaging and role of the Committee with respect to these types of issues need to be examined going forward.

### **(B) Meter Data Management & Repository and Time of Use**

Mr. Campbell advised that the IESO has been working with and will continue to work with the LDC's and the MOE to develop and test a base communications package that can be used by all LDC's. This will facilitate consistent messaging across the province and provide base materials in a cost effective manner which may be used by any LDC as a part of their customer communications package.

## **Discussion Highlights: Day-ahead Electricity Mechanisms**

Mr. Tench provided an activity update since the presentation at the June 4<sup>th</sup> meeting on the next steps on the day-ahead mechanisms. Mr. Bentz asked if proceeding with a parallel decision making process on the Energy Forward Market (EFM) would compromise the decision about the DAM option. Mr. Tench acknowledged that if option 3 were selected an EFM would not be required but noted that the process and analysis has progressed to the point where it is leading to Option 2, and given that, the EFM can proceed on a separate timeline.

Mr. McMillan asked when more information on the design of the EFM would be presented to the Committee. Mr. Tench responded that a more substantial discussion

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would occur at the October SAC meeting. Mr. McMillan further enquired if the IESO would be the clearing house for the EFM. Mr. Tench advised that Stakeholders have indicated that there are other organizations that could perform this service as well or better than the IESO so that is the option under consideration.

Mr. Wight commented that Ontario is not an island and that imports and exports should be an integral part of the design. His sector does not agree with some of the study conclusions and the decision to proceed with Option 2 as his sector views Option 3 as superior. He also noted that the IESO should be spending its time on price formation issues in real-time but if Option 2 does proceed then the design should include uplift avoidance, physical bi-laterals and prudentials, as well as import and export transactions. Mr. Campbell responded that these comments have been heard by the IESO but the analysis does not show how a UDAM could produced the benefits attributed to day-ahead markets that are operating in other jurisdictions. Mr. Tench added that a number of real-time pricing issues need to be addressed. These issues have been brought forward at the market pricing working group, by the MSP and through the evaluation of DAM.

Mr. Horrobin enquired about the IESO's views as to how the market can progress and its future end state. Mr. Tench stated that the IESO would like to have a discussion with the Committee around pricing issues and their priority, as well as other issues that are being worked on.

Mr. Whyte commented that without a broad consensus on the best option proceeding with a study of the common elements is an intelligent strategy. He commented that care must be taken in public communications so that it is not perceived as lobbying against option 3. Mr. Adam White agreed with Mr. D. Whyte that proceeding with the common elements is an intelligent strategy but to be careful with the language because the decision is to proceed with the common elements, not to disregard option 3.

Mr. Cary on behalf of Sithe expressed concern that sufficient resources are being allocated to address pricing issues over the coming year while addressing fundamental dispatch issues in parallel. He noted that there is little tangible benefit associated with the EFM design and he would not like to see it expanded and take away resources from other long-term projects.

Mr. McMillan (Marketers/Traders) stated that his constituents cannot support the movement towards Option 2 and that there is a need to be careful about what is being done for the future. Mr. Wight similarly supports option 3.

Mr. Horrobin (Generators) stated that although the solution presented is not the ideal solution proceeding with option 2 is an intelligent strategy. He further stated that this is not an end state and that further improvements are required on pricing. He would also

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like to see a plan for proceeding with some of the other pricing initiatives as soon as possible.

Mr. Bentz (Distributors) supports option 2 and commented that work can be undertaken to improve the efficiency and potentially future liquidity of the market.

(In summary: all agreed with proceeding with the common elements with the exception of the Marketer/Trading community.)

## **Discussion Highlights: Market Surveillance Panel Report**

Mr. Neil Campbell presented the latest Market Surveillance Panel Report and discussed the Panel's findings, recommendations, and future work.

## **Discussion Highlights: IESO Response to Market Surveillance Panel Monitoring Reports**

Mr. Kozlik addressed the 14 recommendations, 11 being operational and the others being related to market evolution. He noted that a number of these recommendations are already being addressed by the IESO and already are in the stakeholder engagement process.

Mr. A. White indicated that he has reviewed the IESO response and of the 14 recommendations only 3 indicate that action is being taken at this time. While acknowledging that prioritization and stakeholder engagement take time he enquired what can be done to allocate resources at the IESO to get them moving. He expressed concern that the IESO is exhausting its resources on issues like DAM which have taken an inordinate amount of time. He requested a more active response from the IESO. Mr. Kozlik responded that he agrees that items need to be addressed and looks forward to the prioritization exercise this Fall as it will highlight what can and cannot be accomplished.

## **Discussion Highlights: IESO 2009-2011 Business Plan**

Mr. Sergejewich presented the IESO's 2009-2011 Business Plan.

Mr. Wight enquired if a decision on a day-ahead mechanism has to be made by the IESO Board in September. Mr. Campbell responded that the current plan is to ask the Board for a decision in September.

Mr. Horrobin asked if the IESO was confident that the appropriate resources and funding are available to progress in a timely fashion on a number of key issues such as price transparency, price evolution and price signals to support demand response.

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Mr. Sergejewich responded that the appropriate resources are in place to work on the priority issues.

Mr. McMillan asked if the key projects are “must have” as opposed to “nice to have” projects and whether greater efficiency amongst the IESO, OPA and Hydro One has been examined. Mr. Sergejewich responded that the key projects are “must have” as some tools have reached the end of their lifecycle or improved efficiency is required as in the case of online limit derivations. Mr. McMillan commented that the number of full-time employees may not need to change but that there is a need to make sure that the appropriate resources are assigned to the top priorities. He also said that in going forward the IESO should look at whether it should measure its fees on a per unit basis given the market is changing, including more must run, non-dispatchable, and peaking generation.

Mr. Whyte commented that the Stakeholders have asked for a number of initiatives to be worked on by the IESO and that it is appropriate for the Chair to work with the IESO Board and staff to support the IESO’s petition to the government for adequate funding. Although we may not completely agree on of the allocation of those funds, the Committee has a responsibility to support the IESO’s budget application at the appropriate time, perhaps even by testifying. Mr. Bentz responded that there is a willingness to work together but it must be noted that the Committee is not a decision-making body.

Mr. Murphy commented that consistent with prior periods, the budget is constrained in that there are not enough resources allocated to market activities to work on all of the issues identified. Further, not all issues are of equal value and it is appropriate to prioritize. Not all resource allocations can be based on a business case because many of the issues require investigation, analysis and a determination of whether it is worthwhile to proceed. Consequently, the IESO will make a judgment on the appropriate level of resources for market functions, and in so doing, will endeavour to maintain sufficient flexibility to adjust once priorities are fully established.

## **Discussion Highlights: Application of Cost/Benefit Analysis for Peak versus Average Demand in the Pre-dispatch Scheduling Process**

Mr. Rivard provided an update on the peak versus average demand initiative that is currently before the market pricing working group and introduced the policy discussion.