

2009-2011 Business Plan

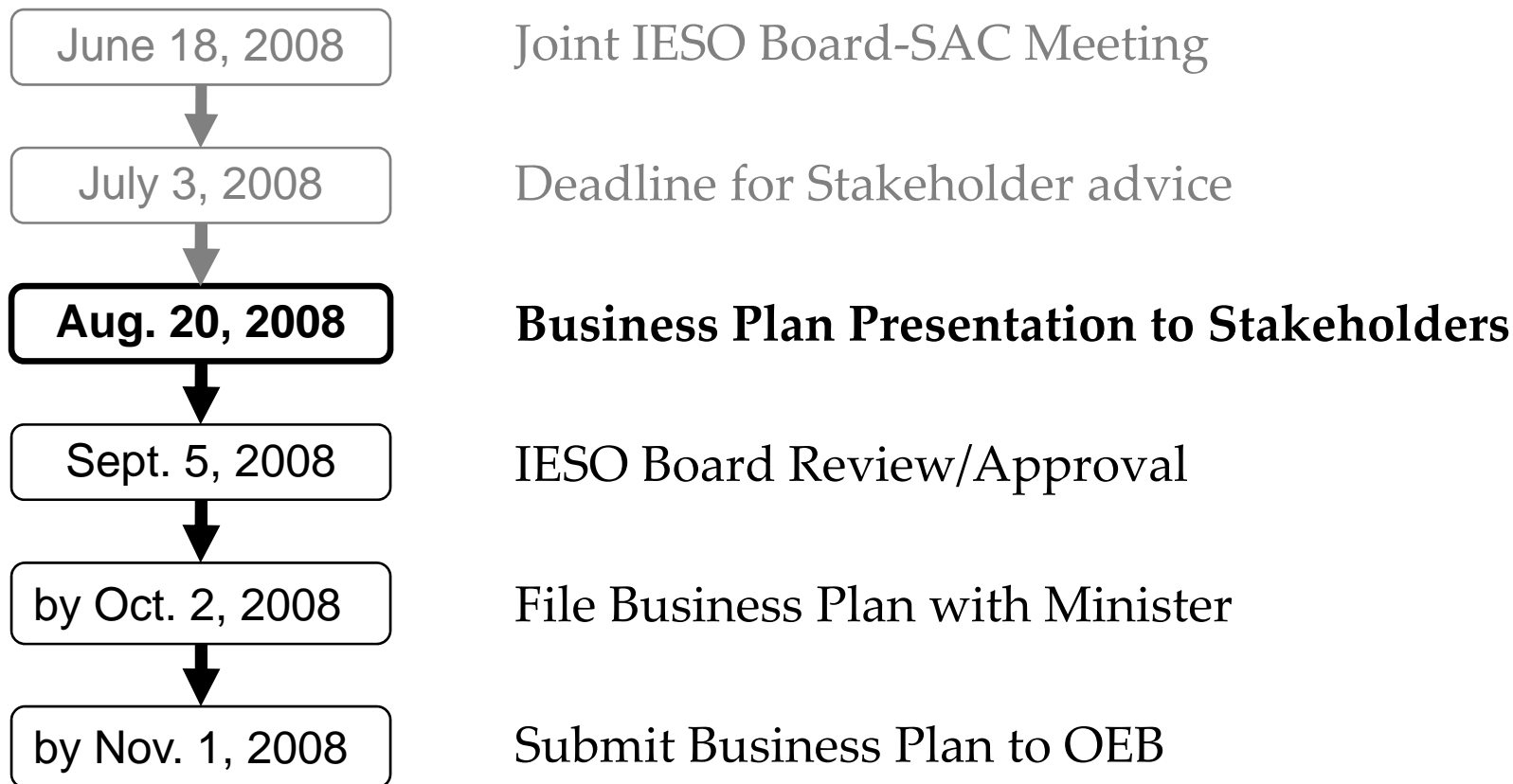
Stakeholder Advisory Committee Meeting
August 20, 2008



To provide stakeholders with:

- a high level overview of IESO's business plan for 2009-2011
- how stakeholder feedback was incorporated into the plan
- current financial projections for 2009 to 2011

Key Dates:



- Maintain high service levels around core responsibilities of operating Ontario's power system and administering the wholesale electricity market.
- Manage work activities to accommodate Ontario's electricity infrastructure upgrade.
- Constrain program growth to limit usage fee increase caused by decreasing energy demand.
- Keep Smart Metering Entity activities segregated from power system activities.

2008 Achievements

The IESO delivered on its core responsibilities* to:

- Direct the operation and maintain the reliability of Ontario's power system, 24-hours-a-day, 7-days-a-week.
- Operate and settle Ontario's \$10 billion wholesale electricity market.

** IESO is also implementing and managing Ontario's Smart Meter Data Management and Repository (MDM/R) in support of Ontario's Smart Metering Initiative as per legislation.*

Other notable achievements in 2008 include:

- Provided contributions at Integrated Power System Plan (IPSP) and other regulatory proceedings.
- Launched the Smart Grid Forum aimed at developing a vision for a provincial smart grid.
- Implemented a Day-Ahead price forecast.
- Reduced total costs for the fifth consecutive year.

2009 – 2011 Business Plan

The IESO is a mature business. We will continue to focus on achieving our Corporate Mission of:

Reliable Electricity Service: our core mandate remains the reliable operation of the high voltage system.

Competitively-Priced Electricity Service: we continue to work in support of greater market efficiency.

Sustainable Electricity Service: demonstrated through our support of Government initiatives in the area and through a reduction to our own environmental footprint.

Submissions from three SAC members were received and have been incorporated as follows:

- IESO will pursue “sustainable” practices consistent with the Brundtland Commission definition:
 - *“Embracing business activities and initiatives that meet the needs of the present without compromising the ability of future generations to meet their own needs.”*
 - Broadly speaking, this entails considering and balancing economic, environmental, and social impacts of our operations and strategy.

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- IESO contributions to meaningful and consistent smart metering communications are highlighted in the business plan.
- IESO will continue to work to improve price signals to support demand response.
- Emphasis on cost effectiveness of IESO power system (and SME functions).

Over the business planning period the IESO will:

- Reliably operate the high voltage system.
- Ensure sufficient capacity to conduct the connection and reliability assessments required for expected changes to the Ontario power system.
- Prioritize work activities in support of ongoing infrastructure changes.

Over the business planning period the IESO will:

- Administer and settle Ontario's wholesale electricity market.
- Effectively and efficiently manage our own costs.
- In cooperation with stakeholders, make selective enhancements to the current Hybrid Market structure, including the implementation of a Day-Ahead Market mechanism.
- Work with municipalities, schools, and hospitals in support of their transition to market pricing.
- Seek real-time efficiencies, for example through wind integration, dispatch efficiencies, market price improvements, etc.

Over the business planning period the IESO will:

- Support government policies and initiatives in the area of sustainability.
- Implement initiatives that reduce our own environmental footprint.
- Enable and support demand response to facilitate customers' effective use of the IESO-administered markets.
- Partner with local distribution companies, the Ministry of Energy and Infrastructure and others to provide meaningful and consistent communications in respect of smart metering, with additional outreach efforts in support of the MDM/R.

- In support of its mission the IESO will undertake the following key capital projects in 2009:
 - Day Ahead Market
 - On Line Limits Development (OLLD) Phase I
 - IESO Enrolment Automation Project (*formerly named “Participant Life Cycle (PLC) Replacement ”*)
 - Rights Management
 - Outage Management Replacement
 - NERC-Critical Infrastructure Protection
 - NERC Standards Compliance Monitoring Tool
- Key capital projects amount to \$18M of recommended capital envelope of \$22.9M

Financial Projections

- Continue to seek and enhance efficiencies within IESO operations throughout the company.
- Continue to manage costs prudently.
- Recognize expectations of lower energy demand through which IESO derives revenues due to:
 - successful conservation and demand management programs,
 - increased distributed generation, and
 - weaker economic conditions.

- Financial projections for 2008 are tracking budget.
- Proposing for 2009 a budget of \$130.3 million, approximately \$5 million less than in 2008.
- Planning to maintain total costs flat over the balance of the business planning period.

- The IESO usage fee is a function of total costs and market (energy) demand.
- IESO's proposed budgeted total costs for 2009 are approximately \$5 million lower than in 2008.
- 2009 forecast of energy demand is down considerably, incorporating expected conservation, the phase out of coal, and the economic outlook.
- Overall, IESO total cost reductions are more than offset by the decrease in forecast energy demand, such that the 2009 IESO usage fee calculates to 0.822 \$ / MWh, representing a modest increase over the 2008 usage fee of just under 3%.

We plan to:

- Deliver on our core responsibility of managing Ontario's power system and wholesale market.
- Make selective enhancements to the current Hybrid Market structure, including the implementation of a Day-Ahead Market mechanism.
- Support government initiatives in the area of sustainability and reduce the environmental footprint of our operations.
- Reduce total costs budget to \$130.3 million in 2009 and plan to maintain a flat budget over the remainder of the business planning horizon.