

IESO Stakeholder Advisory Committee

TO: IESO BOARD OF DIRECTORS

DATE: November 13th, 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 October 30th Stakeholder Advisory Committee meeting. All members of the Stakeholder Advisory Committee were in attendance at the session with the exception of Mr. Bruce Lourie who has resigned from the committee. As well, all IESO Board Members were also present and Mr. Bentz thanked them for their attendance. For this reason, a representative from the Advisory Committee will not be attending the November 13th Board meeting.

Prior to the open stakeholder advisory committee meeting, the committee members met in-camera. Committee members met with IESO management to discuss the next steps on the pricing formation issues in real time which was a follow up from discussions at the last Committee meeting on August 20th. Along with this, we discussed item #4 on the October 30th agenda - the process for setting priorities on studies of market design change initiatives. We also received an update from Gary Sherkey on any financial impacts from the problems in the USA, liquidity challenges and a general lay of the land from the IESO perspective.

Discussion Highlights: Senior Management Update

(A) Review of Action Items from June 4th SAC Meeting

Both action items have been looked after and will be closed.

(B) Review of the Day-Ahead Price Forecast

The report was presented and questions responded to.

(C) 18 Month Outlook

Mr. Campbell commented on the positive outlook and highlighted a stakeholder engagement initiative on reducing the publications to twice per year

(D) Smart Meters and Meter Data Management & Repository

Mr. Campbell mentioned that testing was going well on the latest software release. He mentioned there will be another release at the end of this year or early next year and that this should be the last big step to enrolment of the LDCs.

A number of questions were raised by members and were responded to as documented in the minutes of the meeting.

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(E) Smart Grid Initiative

Mr. Campbell pointed out that the schedule calls for the forum to complete its work and issue a report early in 2009.

(F) Impacts of Embedded Generation on the Grid

Mr. Campbell stated that this initiative is an important development in terms of streamlining and building processes that incorporate this generation in an efficient and reliable way. The focus of this work is to make sure the IESO is efficient, cost effective and is not a barrier.

Mr. White asked if the IESO had a threshold for real-time operational data and Mr. Campbell replied that these are the type of questions to be looked at under this initiative.

(G) Progress on Energy Forward Market

An update was provided and it was mentioned that the IESO will encourage consumer participation in the technical support group.

Mr. Witjes from the Public Sector constituency commented that experience within the university sector over the last three years is that they may transact once or twice a year on a particular forward market.

Other

Mr. Campbell also gave an update on the IESO fee application, the upcoming annual customer survey, and mentioned that the IESO is not planning to do a review of the DACP as work is currently underway to enhance it.

Discussion Highlights:

Appropriate cost-benefit decision criteria for the Ontario Electricity Industry

Mr. Rivard outlined possible decision criteria that could be used when the IESO is looking at changes to the market rules, market procedures or market design when comparing the potential costs and the benefits of proposed changes.

Mr. Rivard asked members to provide advice or their position on relevant decision criteria, in order to revise the paper and present it at the next Advisory Committee meeting.

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Members offered a number of comments on the criteria:

Mr. G. Wight asked how the effect of energy policy and competitive market principles factor into this particular cost-benefit analysis. Mr. Rivard answered that we would be looking at trying to understand what the efficiency impacts or the net impacts on all participants would be from a particular change.

Ms. Girvan asked how the impacts on stakeholders were derived. Mr. Rivard responded that data from 2006 was used under various market conditions - Simulations and modelling were used to estimate the impacts of using average demand in different hours.

Ms. Girvan then asked how you measure what consumers are willing to pay. Mr. Rivard replied that an inelastic demand is assumed so any impact on consumers would be at the higher price. Mr. Rivard added that this is a very conservative assumption and understates the potential efficiency as there is more responsiveness in the Ontario demand.

Mr. Dorey asked when there are trade off between reliability and efficiency, would we try to measure and quantify the reliability impacts and look at who they would impact. Mr. Rivard responded that we would do our best to measure reliability impacts and we did this in the regional reserve sharing case. When we do this, we link the benefits to the consumers.

Mr. D. Whyte questioned the application of the balancing weights approach and if it is a do, or do not do approach. Mr. Rivard replied that only one weight really applies to the electricity industry.

Mr. Bentz asked how relative wealth is weighted. Mr. Rivard responded that you need to have a general agreement to a particular weighting factor.

Mr. Horrobin asked if it was appropriate for the IESO to determine winners and losers in its economic assessment and are we extending the mandate of the IESO into the OEB's jurisdiction. He also asked what would happen if, as a consequence of the analysis that is undertaken, the IESO rejects a proposal that actually results in or would have resulted in an efficiency gain? What recourse do the supporters of that proposal have? Mr. Rivard responded that ultimately IESO has to make the decision on making a change and some guidance on distributional issues is good although Mr. Rivard agreed it was the OEB's mandate on distributional issues. With respect to recourse, Mr. Rivard indicated since a market rule change would likely occur; the recourse is with the OEB.

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Mr. A. White stated that using this as a decision tool to help the IESO make decisions about specific issues was going to be problematic as consumers are impacted differently depending on their location and characteristics. Mr. Rivard agreed that different consumers are affected differently, the same as different generators would be affected differently. The purpose of the weight is to identify that class of consumers that will be negatively impacted. Mr. White responded that it is difficult to get consumer specific data as there is no consistency of customer data from the LDC's and the theory is difficult to apply

Mr. D. Whyte commented that this criterion would help in leadership decisions which come from the IESO Board. This is a tool for the Board to use in making decisions.

Mr. G. Wight added that the cost benefit approach provides discipline but it should not have veto power.

Mr. Bentz summarized discussion that some unfiltered feedback has been given to the IESO and that this topic will be discussed again in December.

Exploration of enhancements to dispatch methodology and processes – Reporting on findings

Mr. MacKenzie gave an update on Stakeholder Engagement Plan-61 on dispatch methods. He presented the background on the initiative, described the initial phase of information gathering where individual discussions were held with stakeholders and the next steps on how to move forward on the findings.

The following feedback was offered from members:

Mr. Bentz asked if the IESO tracks erratic dispatches and dispatch errors and if statistics were kept. Mr. MacKenzie responded that we do track this data.

Mr. D. Whyte asked if the reported problems by generators have been tested, if the complaints have been confirmed, if advisories do not turn out to be true, and if non-contracted Automatic Generation Control resources are being deployed. In reply, Mr. Finkbeiner confirmed that the current advisories are not the best indication of what generators are going to be doing.

Mr. Horrobin raised the concern over IESO resources and the progress that has been made on this initiative. He asked if the plan in the spring of 2009 was for further investigation and study or is there a work plan which will actually see solutions to some of the issues that have been raised. Mr. MacKenzie responded that in the short term, the IESO is working with participants on specific solutions to specific problems. In the spring of 2009, the IESO work plan will be looking at the longer term issues.

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Mr. G. Wight added that feedback from generators has been the lack of progress on this initiative and they want to see an action plan. Mr. MacKenzie responded that specific issues need to be discussed individually. Some of the other issues such as 15 minute dispatch are longer term and will take more time.

In addition, a comment from an attending stakeholder was received:

Mr. Cary from Sithe Global added that the issue has been around for many years with combined cycle plants. With more units planned for Ontario, this will become a larger issue moving forward. He added that the OPA has approached IESO for getting rules in place for peaking generation.

Discussions on process for setting priorities on studies of market design change initiatives.

Mr. MacKenzie presented the prioritization model.

Members offered a number of comments on the model:

Mr. A. White asked what the cost was for a typical study. Mr. MacKenzie responded that there was no typical cost amount.

Mr. A. White added that a large issue seems to be the allocation of resources and if the list of projects is the proper list. He suggested the IESO should study all the issues to help in deciding which projects to implement.

Mr. Wight asked where energy policy would be weighted in the priority setting. Mr. MacKenzie responded that it would score high under government policy.

Mr. D. Whyte added that he thought the IESO was asking the wrong people, as this is a question that should first be asked to the Board of Directors. If the Board or government request studies, this will take priority over suggestions from stakeholders.

Mr. Campbell responded that the IESO get recommendations from various stakeholder groups and from the Market Surveillance Panel and we need stakeholder assistance in which project to spend our time on.

Mr. A. White commented that he felt he was being asked to comment on the order of issues to study before studying them. You need to study the issue to determine the effects on efficiency or reliability.

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Mr. Bentz stated the role of the Committee was in question on this topic and how it fits into the governance of the IESO as advisors. He added that another issue is resourcing and making informed decisions. In order to make informed decisions one needs to invest in resources to do the studies.

Mr. McMillan added that he thought the committee could determine the top issues without the need for studies.

Mr. Campbell agreed that a certain amount of detail on the issues is needed. What the IESO is looking for from the Committee is the interest in the methodology.

The next meeting is scheduled for December 3, 2008.

The meeting was adjourned