

IESO SENIOR MANAGEMENT UPDATE

To: Stakeholder Advisory Committee

Date: February 4, 2009

Subject: More Efficient Uniform Price Initiative

Information Item

The study and discussion with stakeholders of day-ahead market design issues deepened everyone's appreciation of the difficulties faced in attempting to evolve the market in the face of the current unconstrained price-setting in the existing real-time market. As a result, the IESO, with the broad support of stakeholders, committed to work with participants and Stakeholder Advisory Committee members to review the current real time pricing model. The IESO is preparing for a review of the "More Efficient Uniform Price," initiative. This memo provides an update of the steps that the IESO is taking in the preparation of this review.

- On February 3, 2009, IESO staff will lead an introductory discussion of the issue before the Market Pricing Working Group (MPWG). This will include a discussion of the possible scope and objectives of the study. A series of key questions will be raised with stakeholders with an aim to identify the general issues/problems with the existing market pricing design and the possible options for addressing these issues.
- Over the next month, the IESO will meet with key stakeholders to receive additional feedback. This feedback will be used to further define the scope and objectives of the review of this issue.
- Based on feedback received and other pertinent material and analysis available to the IESO, IESO staff will produce a Discussion Paper. The Discussion Paper will identify the key concerns with the existing market pricing design and the possible alternative design options. The paper will set out the proposed scope and objectives of the review. This paper will summarize existing analysis, Market Surveillance Panel recommendations, academic literature, similar experiences in other markets and stakeholder views.

- The IESO is considering different options for the forum for the stakeholder process of this issue. One option is to use the existing structure of the MPWG. The IESO would be responsible for conducting the analysis of the issue with feedback from members of the MPWG. The IESO would provide periodic reports to the SAC of the progress and direction of the review. A second option is to carry out the review through a sub-committee of the SAC. Under the Stakeholder Advisory Committee *Terms of Reference*, the SAC is empowered to create a working group comprised of some of its members for specific matters requiring detailed consideration and deliberation. Under this model, it is conceived that the SAC Sub-Committee, with the support of assigned IESO staff, would prepare a series of recommendations, including potential market design improvements, in a comprehensive written report submitted to the SAC and to the IESO. Given that the design of the real-time market pricing regime is likely to involve broader public policy implications, there may be merit in using the SAC as the key forum to review this issue. The IESO will canvas SAC members and stakeholders to assess the interest in this alternative stakeholder process.