

## Marketers/Brokers, Adèle Malo, Jack Burkom

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March 2, 2011

Dear Chairman IESO Stakeholders:

**Subject: IESO Priorities IESO Stakeholder Input Marketers & Brokers**

On behalf of the Retailer/Marketer/Broker community, we would like to thank you for the opportunity to again offer our perspective on issues we believe the Board should consider addressing in the near to mid term.

Our membership is comprised of parties who operate in the retailing, marketing and trading of energy in Ontario and who are all keenly interested in creating and maintaining an electricity market that provides meaningful price signals to all market participants. Our comments below have been developed in consultation with our stakeholder group and represent the views of the entire constituency and not specifically those of Direct Energy and Brookfield Energy Marketing. We believe that the IESO should address the following four major areas of concern:

1.) Price signals: the Ontario electricity market continues to evolve with a number of extremely large recent changes including a nearly 10% drop in annual energy consumption since 2005, a changing supply mix and a concerning movement away from market forces towards a more centrally planned electric system. Retailers in particular are frustrated that lower demand and greater supply has not resulted in the usual decrease in price levels for their customers but on the contrary has led to increased prices and fewer means of hedging these growing power bills. The reality is that under today's wholesale electricity market structure, they cannot provide the same value and stability to retail customers that they desire. Instead, they are faced with the further deterioration of the market unless steps are taken soon to alleviate some of the larger market distortions.

The province is spending considerable resources on market-enhancing infrastructure such as Smart Meters. Other jurisdictions that are also encouraging the growth of demand side participation via Smart Meters are now implementing scarcity pricing rules that actually allow for the higher prices that are required to incent additional demand side participation in the markets. In Ontario, centralized government procurement and contracting practices have resulted in, and will continue to exacerbate, the marginalization of the Hourly Ontario Energy Price at the expense of an ever growing Global Adjustment. If we are ever to achieve the benefits of increased demand side participation in the markets that these expenditures are intended to deliver, the wholesale market must be rationalized. If not, customers will realize nothing but increased bills.

2.) Exports: the Ontario Energy Board has recently ruled that the Export Transmission Service ("ETS") Tariff fee will be increased from \$1/MWh to \$2/MWh. Our stakeholder constituency does not support this increase and does not believe that it is in the best interests of not only our constituency but also of the customers in the province nor the reliability of the grid. The increase has not been supported by any rational study and

appears to be a political response to growing costs in Ontario. As noted previously by the IESO, exports are one of the most important and effective means at its disposal of managing the present and growing surplus baseload generation reliability issue in the province. In addition, exports will generally provide not only the variable operating cost of supplying the marginal megawatt of energy available for export but also some of the additional fixed costs of the same contracted generation assets that would otherwise end up in the Global Adjustment. Reducing exports will only serve to increase costs to Ontario customers. Intertie trading is an important part of the IESO market structure and over the years Ontario has relied on trading at the interties to balance the market when it has been in both a short and a long energy position. The IESO should advocate on behalf of reduced transaction fees at the interties to further increase efficiency.

3.) Market Roadmap: the IESO has been advocating for a Market Road Map to develop an actionable plan for the provinces' marginal dispatch energy market for nearly a year now. As noted last year in the IESO's Business Plan Presentation to the SAC, "issues driving the need for such a review include: the complexity of our current market; the need to better integrate contracts; market and operational drivers; the role and value of efficient pricing... and the importance to Ontario of market co-ordination with surrounding jurisdictions". The Marketers / Brokers stakeholder constituency strongly supports the development of such a road map. Specifically, our constituency is concerned that the role of the marketplace appears to be diminishing in the face of greater government involvement in what should be an independent grid operator dispatching on a least cost basis. While we support the principle of a Market Road Map that may serve to enhance the role of the marketplace in determining behaviors and market outcomes, we are concerned by the lack of information concerning the IESO's priorities, stakeholder involvement in the Road Map and timeline for participation and feedback.

4.) IESO Advocacy: the Brokers / Marketers constituency believes that the IESO has a critical role to play in the Ontario electricity market. Strong government procurement activities should not necessarily have to occur at the expense of an independent marketplace. Many other regional transmission control areas in North America see meaningful procurement of various generation resources by public or private utilities or state subsidies towards specific generation technologies without compromising the structural integrity of the independent system operator. The IESO should always take a lead role in ensuring that the policy makers in Ontario draft contracts that meet the revenue requirements of the infrastructure investments in the province without reducing the role of the markets to send meaningful price signals.

Our market evolution has not followed a path that provides our members a sense of confidence that they can count on a lively market environment in which to operate. We understand that the path ahead will not be arrow-straight and entirely known, but we are of the view that it would be worthy of this Board to contemplate taking courageous positions - not confrontational positions - where reasonable market evolution was supported as the best and most logical way forward and which could see the objectives of many market participants met, regardless of perspective.

We encourage the IESO to consider this matter and its implications seriously as it sets its priorities. The Marketers and Brokers thank you for the opportunity to raise our concerns and we remain willing to work with the IESO to develop possible solutions.

Sincerely

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