

STATUS REPORT

OBLIGATIONS AND UNDERTAKINGS ARISING OUT OF

THE IESO'S FISCAL 2006 FEE SUBMISSION FOR

REVIEW

October 30, 2006

I. CONDITIONS OF APPROVAL

1.0 OPERATING COSTS

Obligation 1.1:

As part of its 2007 Fees Case filing, the IESO will provide its views on whether or not it is appropriate to set targets for the IESO's compensation levels on a quartile or some other basis.

Status: Completed

The IESO position on this topic is that it will continue to gather market data and utilize median compensation levels as a guide in making compensation decisions. However it will also take other relevant factors and conditions into account when making such decisions including the demands for skills in the marketplace, internal relativities, the various collective bargaining needs, arbitrators' decisions, pressures emanating from other ISO's and industry employers.

Obligation 1.2:

The IESO shall report to the Human Resources and Governance Committee of the IESO's Board of Directors the following:

- Ø that some intervenors wish the IESO to design and conduct a study which will explore the advantages and disadvantages of Defined Benefit Programs vs. Defined Contribution Programs for all employee categories of the Applicant;
- Ø that intervenors wish to have input into the selection of the consultant doing the study and the terms of reference; and
- Ø that intervenors desire that these concerns be reported to the full Board of Directors of the IESO.

Status: Completed

On June 7, 2006, IESO management reported to the Human Resources Governance Committee (HRGC) of the Board of Directors the intervenors' concerns on this issue. The rise in pension expense over the recent years provided the impetus for this concern. Because pension valuations and funding under current accounting rules are sensitive to short-term fluctuations in interest rates, other economic factors and demographic variables, most defined benefit pension plans have experienced a significant swing towards increased liabilities over the last few years, including the IESO.

The Board of Directors of the IESO (IESO Board) and management pay close attention to these trends. In managing the pension plan, they take a longer term perspective of pension needs, their implications for IESO costs and cost volatility, and for implications on future resourcing needs. Management and the IESO Board also utilize their assessments of current and expected future economic climate and potential demographic changes in deciding if alternative approaches to pension provisions are in the best interests of the IESO and its customers. The IESO Board is kept current on these issues on an ongoing basis.

Under current legislation, the IESO is restricted in the application of changing pension provisions for existing members. Changes to pension strategies generally apply to future service only and, in the case of unionized employees at the IESO, any changes must be collectively bargained. Accordingly, the benefits, if any, that may be associated with altering a pension approach will not become significant until years in the future whereas any costs, both administrative and additional short term pension costs, of implementing such changes will largely need to be absorbed immediately or over the next few years.

In making decisions concerning future pension approaches, both management and the IESO Board must balance competing risks and business needs. They must balance the role of the plan in contributing to the IESO's total rewards strategy, with potential short and long term costs and benefits of the changes, and the financial risks associated with any pension provisions.

A well-defined governance framework has been put into place to guide the IESO Board and management in its decision-making on pension issues. Programs have been put in place to ensure that pension objectives are carried out and that legislative requirements covering the IESO's pension plan are met. Management and the IESO Board continually look into the future and evaluate whether the objectives require refinements. This is a dynamic process that requires ongoing and active monitoring. The objectives and supporting framework that govern the benefit security, funded status, the level and volatility of the pension expense, as well as the level and volatility of any contributions, are continually reviewed through this process.

Based on these considerations, at its June 7th meeting, the HRGC noted that it is familiar with the characteristics of defined benefit and defined contribution plans, as well as their advantages and disadvantages and the labour relations context in which the IESO operates. As a result of these factors and the robust governance process in existence at the IESO, the HRGC felt that there was not a need to conduct such a study.

The HRGC noted that management is continually focused on the Corporation's costs generally and compensation programs in particular. On June 8, 2006, the HRGC reported the concerns of intervenors to the full Board of Directors of the IESO. As such, the IESO Board took no further action on this issue.

Obligation 1.3:

The IESO shall provide the following to intervenors:

- Documentation demonstrating that the Human Resources and Governance Committee of the IESO Board has received and considered the intervenors' request; and
- The response from the Human Resources and Governance Committee of the IESO Board of Directors to the intervenors' request. The IESO will also file such documentation and response with the OEB as part of this undertaking.

Status: Completed

On June 26, 2006, the IESO sent a letter from our General Counsel and Secretary to the Ontario Energy Board and forwarded a copy to intervenors on June 27, 2006. The letter documented the HRGC's receipt and consideration of the intervenors' request, as well as its response to the request.

Obligation 1.4:

The IESO will publish on its public website on a monthly basis:

- (1) the bias calculations for on peak and off peak hours for both day-ahead and one and three hour out day-at-hand measures, and to be shown separately for on- and off-peak periods, and;
- (2) the number of days in which the absolute value of error in any hour exceeds 3%, for both day-ahead and one and three hour out day-at-hand measures, including the maximum absolute error in which any hour exceeds the 3% value.

Status: Completed

The IESO has posted the requested information on the Market Summaries page of its website covering each month from January through September, 2006

(<http://www.ieso.ca/imoweb/marketdata/marketSummary.asp>).

The IESO will continue posting this information on a monthly basis.

Obligation 1.5:

Some intervenors will recommend to the SAC that a task force:

- (1) be established to examine ways to narrow the range of forecasting deviations, (for day-ahead as well as day-at-hand); and
- (2) commence its work and report back to the SAC with its recommendations as soon as possible.

Status: Completed

Following consideration of the issue, on September 5, 2006 the SAC approved the establishment of a working group to review the demand forecast methodology used and to assess the deviations which have resulted from using this methodology. Under the Stakeholder Engagement Plan released in October, 2006, it is estimated that the working group will report its findings and recommendations to the SAC during January, 2007.

2.0 CAPITAL SPENDING

Obligation 2.1:

In its 2007 fees application, the IESO will file a Capital Project List similar in form to Appendix 3 in the 2006- 2008 Business Plan that includes additional information showing the actual 2005 expenditures for the capital projects forecast for 2005 and year to date 2006 expenditures for the capital projects forecast for 2006.

Status: Completed

The IESO has included this information as part of its pre-filed evidence.

Obligation 2.2:

The IESO is committed to implementing its priority 2006 initiatives according to the following timelines subject to the Understanding of the Parties set out below.

Reliability Issues - Prior to the summer of 2006;

Market Pricing Initiatives - To be implemented in parallel with the implementation of the DACP, to the extent feasible without jeopardizing the June 1, 2006 DACP in-service date;

Market Evolution Programs

- to resume and advance this work with stakeholders in accordance with the Resolution of the Board of Directors dated December 7, 2005.

General Understanding of the Parties

The parties understand that the IESO's ability to fulfill its commitments set out above relating to "Timelines" is subject to:

- (i) the completion and results of any required stakeholdering processes, which may involve discussions and resolutions on the timing of implementing the above mentioned initiatives;
- (ii) the IESO's ability to access required resources such as outsider vendors to implement the agreed upon solutions; and
- (iii) the availability of human resources in the event of extraordinary circumstances impacting the IESO.

Status:

- (i) Reliability issues:

- a. Day-Ahead Commitment process (DACP) and the Emergency Load Reduction Program (ELRP) were implemented in June, 2006. **Completed**
- b. Three internal resource dispatch initiatives were placed in service during the spring and summer of 2006:
 - i. An increase in the compliance deadband for units larger than 30 MW from +/- 2% of the dispatch instruction or 10 MW which ever is greater to +/-2% or 15 MW which ever is greater.
 - ii. Compliance aggregation which allows participants to use two or more related generation units to satisfy the total MW requirement of dispatch instructions instead of having their units follow individual dispatch. This allows more flexibility for generators to structure their response to dispatch.
 - iii. Replacement offers which allow generators to replace the energy from a unit that has gone on outage with energy from another related generator. **Completed**
- c. Reliability issues arising from failed intertie transactions were addressed in June, 2006 through two mechanisms:
 - i. Imports scheduled through the DACP must flow in real-time in order to receive a day-ahead intertie offer guarantee.
 - ii. Automatic intertie failure charges have been instituted. These apply to transactions that fail to flow in real-time for reasons that are deemed to be within the participant's control. **Completed**

(ii) Market Pricing Issues and Initiatives:

- a. The appropriate ramp rate multiplier to be employed in the Market Schedule has been reviewed and is awaiting IESO Board consideration in November. **Ongoing**
- b. Stakeholder consultations are underway to determine whether intertie transactions should be considered in the calculation of the Ontario Market Clearing Price. **Ongoing**

(iii) Market Evolution Programs, including resuming and advancing work with stakeholders on a Day-Ahead Market:

Discussions are underway with stakeholders as to the path forward for day-ahead initiatives, including an examination of locational marginal pricing. **Completed**

3.0 OPERATING SURPLUS

Obligation:

The IESO shall continue the existing process for the treatment of accumulated operating surplus, i.e., that any surplus in excess of \$5 million should be returned to the market participants as a rebate in the following year based on each market participant's allocated quantity of energy withdrawn during the prior year.

Status: **Completed**

Consistent with the proposal that was accepted by the OEB in the 2006 rate application, the IESO will rebate to market participants any accumulated surplus balance over \$5.0 million. The IESO is projecting a rebate of approximately \$11.9 million, to be distributed to market participants in the first quarter of 2007.

4.0 BENCHMARKING

Obligation:

The Board directed the IESO to report costs consistent with FERC's Order No. 668 cost categories, and to include in its 2007 Fees Submission such comparative information as is available at that time.

Status: **Completed**

On August 15, 2006, the IESO posted costing information consistent with FERC's Order No. 668 cost categories for the second quarter of 2006. The IESO has included in its 2007 fees case such comparative information, as is available at this time. The IESO will conduct a comprehensive comparative analysis in 2007, when a complete year of data is available. The IESO will publicly report on the results of this analysis and will make use of it in the continuing process of improving business performance.

5.0 COORDINATION BETWEEN IESO AND OPA

Obligation:

The Board directed the IESO to file, as part of its 2007 Fees Submission, the following:

- a copy of the OPA/IESO Master Service Agreement to be executed by the IESO and OPA, subject to any confidentiality concerns;
- any schedules negotiated thereunder, subject to any confidentiality concerns; and,
- the actual costs incurred and charged by the IESO to the OPA for services provided in 2006.

Status: **Ongoing**

As part of its pre-filed evidence, the IESO has filed copies of the OPA/IESO Master Service Agreement, and negotiated schedules. Actual costs of \$348,000 have been incurred and charged by the IESO to the OPA for services provided up to the end of September 2006. The IESO will file an update of the actual annual costs following year-end.

II. SETTLEMENT AGREEMENT

6.0 RELIABILITY INITIATIVES FOR 2006

Undertaking:

At the January 30-31 Settlement Conference, the parties agreed to the following:

- On a trial basis for the 2006 forecast year, the IESO will provide, as part of its 2007 Fees Case filing, an informed estimate of the actual OM&A costs incurred in 2006 for each identified current market initiative in the event that such OM&A costs for any initiative exceed \$500,000, to be updated once final 2006 costs are known.

Status: **Ongoing**

The IESO estimates that none of the identified market initiatives will exceed the \$500,000 threshold. The IESO will file an update of this information after 2006 year end.

7.0 FUNDING FOR IESO STAKEHOLDER PROCESSES

Undertaking:

The IESO advised that IESO management plans to bring to the IESO's Board of Directors in the near future a proposal for a pilot project for intervenor funding for IESO stakeholdering processes.

Status: **Ongoing**

IESO management is currently considering the provision of funding for eligible participants in respect of the consultations on day-ahead arrangements.

III. UNDERTAKINGS FROM FISCAL 2005 FEES FOR REVIEW

8.0 POLICY ON CHARITABLE DONATIONS

Undertaking:

The IESO undertook to review its current written policy on charitable donations in order to provide more detail on those activities that qualify for donations from the IESO and, to that end, will consider the elements proposed in the filed evidence by the Ontario Federation of Agriculture: Considerations for a Policy for Expenditures Not Directly in Support of Corporate Objectives.

Status: **Completed**

The IESO conducted an extensive review of its existing charitable donations policy. As part of the review, the IESO examined the charitable donations policies of comparable organizations. On September 21, 2006 management presented its findings to the Human Resources and Governance Committee (HRGC) of the IESO Board of Directors.

Based on management's presentation, the HRGC approved the general framework for a Charitable Contributions Policy. The HRGC determined that the IESO should not institute a program to provide charitable contributions or financial sponsorships, except for donations made on behalf of employees, their immediate family, and pensioners and at the time of their death. That donation amount is \$50.

The IESO will continue its annual charitable drive in support of the United Way. While the IESO does not provide direct monetary contributions to the United Way, it does permit program organizers to operate the program on company time. The annual United Way charitable drive allows the IESO and its employees to maintain their commitment to strong corporate values and positive community involvement.

In making its decision, the HRGC considered both the appropriateness of allocating ratepayer dollars to charitable initiatives and/or financial sponsorships, and the potential cost of administering a charitable donations fund.