

Minutes of Meeting
May 10, 2007, 9:00 – 2:00
Clarkson

Attendees

Company	Name
EPCOR Merchant & Capital	Krzywicki, Rafal
Hydro Quebec	Bellavance, Erik
Ontario Power Generation	Bell, Brian
Ontario Power Generation	Harrison, Steve
Manitoba Hydro	Chung, Lam
TransAlta Corporation	Johnson, Wes
Via Teleconferencing	
Coral Energy	Jackson, Stan
Fasken Martineau	Plante, Pierre
Manitoba Hydro	Kelly Hunter
Silverhill Limited	Radan, George

IESO
Bull, Tabatha
Drake, Gordon
Finkbeiner, Darren
Morris, Elizabeth
Philips, Carmela

Agenda Item 1: Administration

Darren Finkbeiner explained that Dave Robitaille has been seconded to the OEB for two months and that Tabatha Bull will be acting as chair in his absence.

Agenda Item 2: Approval and Review of the March 2, 2007 Draft Minutes

No comments were received during the official commenting time frame.

The minutes were accepted and will be posted as final following this meeting.

IESO Initiatives List

IESO has solicited input into the initiatives list and has yet to receive any. There hasn't been any prioritization of the initiatives as all initiatives are currently on-going.

Exports to be shown by intertie

Currently with the IESO IT group but it is prioritized on the IESO M&SO Issues List

MISO Protocol Update

This issue was discussed at the last meeting and participants asked that the example be updated. The example has been updated.

D Finkbeiner explained that MISO has asked IESO to talk to their transmission providers, specifically Manitoba Hydro and ITC. MB Hydro has some concerns that they are working through and the IESO is working with MB Hydro to come to an understanding on their concerns. MB Hydro is meeting with their customers on May 24 and will meet with the IESO again in June to discuss the protocol. MB Hydro is concerned that the protocol will drive transmission users to not acquire firm service because it will devalue firm service and this will mean lost revenue. IESO explained that since firm service will always hold the trump card, it will always bump out non-firm service. The IESO has the right to at any time reject a tag that is not reflective of a transaction in our market. After our offer and bid windows close, IESO will look at transactions and clear out tags that are not reflective of transactions.

D Finkbeiner went through the IESO-MISO Scheduling Protocol slideshow which was included in the meeting materials. If a MP has acquired service and is not using that transmission service, MISO will release this service at T-30 for sale. This leaves a small window of opportunity for an MP to observe IESO predispatch and get an appropriate e-tag. D Finkbeiner discussed the example on Slide 5 of the presentation. It is proposed that at the T-90 checkout with MISO, the IESO would adjust e-tags to match the 2-hour ahead predispatch and clean out erroneous e-tags so that when transmission service is released at T-45, the opportunity will be there for market participants to purchase any released transmission service. There are three scenarios: 1 Transmission tag with no schedule, IESO throws the tag out; 2 Transmission tag and a schedule, no action is taken; 3 schedule but no tag, leave the schedule but now transmission service is available for purchase. The protocol will cause economically scheduled hour-ahead tags to be more successful. IESO hopes that

transmission service will no longer be a cause of failure for transactions. The protocol gives participants the flexibility to acquire transmission service at T-60. The correlation in schedules between hour-ahead and 2 hour-ahead is approximately 30-40 MW. Participants asked what the proportion of transactions that were failing because their access to transmission service was blocked.

Action: IESO will investigate the proportion of transactions failed because transmission service is being blocked.

Participant asked at what point the participant has to make a transmission request. The IESO is not placing any obligation on participants to purchase transmission service in advance. There is no change in the value of firm service, but it is expected that there will be an increase in the sale of non-firm service as a result of the protocol.

Participants asked if the protocol was in effect or whether it was still draft. D Finkbeiner confirmed that it is still draft and the IESO will discuss the protocol with the traders before it is implemented to address any trader concerns.

Participants asked how this protocol differs from the existing protocol. D Finkbeiner explained that the only difference is that today a transmission tag that has no schedule will not be discarded after 2-hours out and will hold on to transmission service that will be unavailable to scheduled transactions. If MB Hydro is reluctant to adopt the protocol but the IESO agrees and the traders agree, the IESO will institute this protocol.

MB concern is that it limits the advantage of having firm transmission and firm transmission will therefore not be a desirable commodity. A further concern is that the protocol could create a gaming opportunity on the interface and that more non-firm service will reduce the reliability of the system. D Finkbeiner explained that the firm service provider must still be economical, if a firm service provider and a non-firm are both economical the firm service provider will get scheduled. Participants asked when the transmission would be released. D Finkbeiner said that the transmission is released at 2 hours out. However, if the firm transmission holder then becomes economical, the firm holder will be able to re-acquire that transmission service. D Finkbeiner explained that a gaming opportunity exists now if transmission service is being hoarded by a participant and so the introduction of the protocol will not further expand on this opportunity.

Failure Charge Calculation

Participants raised the concern that the failure charge is calculated based on the 5 minute price and that when the failure charge was being discussed participants had felt that the price comparison was hourly as opposed to 5-minute price. Participants felt that HOEP would be a better comparison with pre-dispatch price as opposed to market clearing price. It was decided that this issue would be discussed later in the meeting.

Agenda Item 3: One Hour Bid/Offer Window – Participant Feedback

Participants asked for an explanation as to why the move from a 2 hour window to a 1 hour window will increase the number of failures. A 1 hour window will not allow for the introduction of the MISO protocol which is designed to reduce failures. D Finkbeiner explained the NY protocol example as shown on Slide 5 of the presentation from March 2 meeting. Participants asked why this is true for Ontario and New York but not for New England and PJM with New York. D Finkbeiner explained that Ontario and New York are the only economic-to-economic market evaluation system. Other jurisdictions have price-taking constructs in real-time in place that allow for the navigation of the New York market. Participants asked about the inclusion of New York HAM results into the IESO pre-dispatch results. D Finkbeiner explained that the coordination between the tools of New York and Ontario proved to be a significant challenge.

Participants are invited to provide comment on the issue before the next meeting and the IESO will leave this as an open item on the initiatives list.

Participants asked if it would be possible to alter the timing of pre-dispatch runs for the IESO. D Finkbeiner explained that the design of our tools are such that there is only a small amount of leeway (5 minutes) in the timing of pre-dispatch runs with respect to other jurisdictions and the e-tag timelines and any changes to these tools would be very significant.

Agenda Item 4: Stakeholder Engagement Update

T Bull presented an update on the stakeholder engagement initiatives currently underway.

SE-40

The minutes from the penalty loss factor conference call will be posted on May 10, 2007. There will be a two week period from the receipt of new penalty loss factor numbers before they will be implemented. The expected implementation date is July 1. T Bull will attach the recalculated penalty loss factors to these minutes. The IESO legal department has given approval for the publishing of all market participant penalty loss factors. Participants asked if the IESO will be able to predict a penalty loss factor as part of the connection assessment process. The IESO has provided this for Sithe Goreway and will investigate the possibility of doing this in the future.

Participants asked if the IESO was planning to recalculate penalty loss factors after the close of the 2-hour bid/offer window. The IESO is not looking to create a dynamic penalty loss factor calculation but may investigate publishing penalty loss factors in the planning timeframe for each day. Participants suggested that the IESO investigate the potential hurdles that this might pose for market participants. The IESO will determine the updating timeframe based on how frequently the factors change.

SE-37

Initiative 1 was approved my NPCC will be implemented in HE1 on May 17, 2007.

Initiative 2 was approved by NPCC but a Market Rule amendment is required to implement this in Ontario so that development is in progress.

Participants asked when Initiative 5 would be discussed.

Participants asked when the publishing of intertie NISL and shadow prices would commence. The IESO implementation date is Fall 2007.

Participants asked about the status of the financially binding status issue. The settlements issue with NY is still under investigation internally and the IESO will provide an update on this issue for the next meeting.

Action: Provide an update on the financially binding status issue for the next meeting.

Agenda Item 5: Counterintuitive Intertie Failure Charges

Carmela Philips provided an update on counterintuitive intertie failure charges. Discussions took place which led to the transition from failure assessments from a compliance action to a settlement charge. Failures continue to be breaches of the market rules, however failures used for economic gain or exercised in a disruptive way will still be evaluated on a compliance level. Failures have both a reliability impact as well as a market efficiency impact. These failures tend to draw real-time price away from the pre-dispatch price. If a participant fails an import and the price tends to increase, then that participant has contributed to the increase in price and will be assessed a charge based on their contribution. For exports, the price tends to decrease and the participant will be assessed a charge on the failure, while taking into account the historic bias of the deviation between the real-time price and the pre-dispatch price. The market is indifferent to whether price is high or low, however the efficiency of the market depends on a close correlation between predispatch price and real-time price. The IESO designed the charge so that it would assess the impact on the market, but assumes that participants are not making economic decisions to fail. The failure charge is not to be treated as a financial tool.

Participants expressed the view that the price should be a signal to traders to exercise the opportunity to economically fail. The concern was that under circumstances of high demand, the failure of an export might lead to a significant decrease in the real-time price leading to a failure charge. However, this export might have been cut by the IESO for reliability concerns and no failure charge would have been assessed. Participants suggested that a high-price threshold for extreme conditions should be established that allowed for a discussion on assessed failure charges take place before the charge is implemented.

Action: Investigate the potential for implementing market changes which would allow for such a threshold or discretion in extreme conditions.

Participants expressed concern over the evaluation of a failure charge of 5-minute price against pre-dispatch price. It was felt during the discussions that the comparison would be between real-time HOEP and pre-dispatch. There is no offset provision that would allow for the charge to be negated in intervals where the price was not below the bias point. Penalties can only be accumulated, they cannot be offset.

Action: IESO will evaluate the calculation methodology and implications of changing the formula for the failure charge.

The issue of counterintuitive failure charges will remain on the committee's issues list until a resolution is made.

Agenda Item 6: NYISO Technical Bulletin 151

A conference call was held on April 20, 2007 to discuss implications of transactions made recallable by Ontario for CAOR not being accepted by NYISO. The minutes of this call can be found at <http://www.ieso.ca/imowebpub/200705/intertieTrading-minutes-20070420.pdf>. At this meeting options were presented on the order of recallability for CAOR. The IESO is currently recalling transactions based on economic merit and plans to proceed with this design, pending feedback from the trading members. No feedback was received prior to the meeting.

Member Questions, Comments and Discussion

- (1) OPG agrees with the recallability based on economic merit provided that the procedure is well documented.
- (2) Transalta also voiced their agreement with recallability based on economic merit.

IESO Response: CAOR recallability will proceed based on economic merit at the 2 hour out and one hour out predispatch. Any transactions deemed to be made recallable with New York based on the 2 hour out predispatch will be made so at the 90 minute checkout. Another assessment will be made based on the one hour predispatch and all other transactions will be made recallable at the 30 minute check out.

- (3) It was requested that the IESO notify participants if their transactions were curtailed due to recallability.

Action: The IESO will endeavour to make this notification possible.

- (4) The IESO was requested to look at notifying MPs of their recallability based on the 2-hour out predispatch, then allow them to purchase an import to support the MWs and not make them recallable if they did so.

IESO Response: The coordination of this type of program would have many hurdles due to the timing difference between the IESO and neighbouring markets. The IESO will track transactions that are curtailed for recallability, if this number is high and affecting trade and provided there is a genuine interest in instituting such a program the IESO will investigate this further.

- (5) Will IESO cut an export if SAR is requested?

IESO Response: No.

Agenda Item 7: Seams Agreements and Discussion

A: New York failures Security vs Economics – Based on conversations with NYISO, It appears that all failures in New York at the 30 minute checkout are due to economics. The IESO is following up on these discussions and will report back to the IJT any changes that will be made to the failure charges.

B: When a TLR3 is called a NERC tag must be implemented by all parties by T-35, or the tag will be held by IDC and subsequently curtailed. If the tag is submitted by the market participant by T-35, but not approved by all parties in time for IDC, a TLRi/TLRe failure code will be applied. If the tag was not submitted by T-35 an OTH code will be applied to the transaction and failure charges will apply.

C: Currently all wheel through transactions failures are all coded as TLRe. In times of congestion, the failure of a wheel through transactions could cause reliability and/or pricing issues for the IESO. For this reason the IESO will monitor the number of wheel through failures in times of congestion and assess the need to apply the OTH code in situations where applicable.

Agenda Item 8: Additional Business

The draft IJTSC meeting schedule for 2007 as attached to the minutes of March 2, 2007 was accepted and will be posted as final.