

IESO Stakeholder Advisory Committee
Minutes of Meeting
May 24, 2006
9:00 am

Advisory Committee Members in Attendance:

Mr. Brian Bentz (representing Distributors)
Mr. Bruce Boland, Chair (representing Generators)
Mr. Bruce Lourie (representing Environmental)
Mr. Chuck Stradling (representing Commercial Consumers)
Mr. Daniel Whyte (representing Generators)
Mr. Don Thorne (representing Distributors)
Ms. Julie Girvan (representing Residential Consumers)
Mr. John LeMay (representing Wholesale Consumer Market Participants)
Mr. Matthew Picardi (representing Marketers/Brokers)
Mr. Mike Humphries (representing Embedded Industrial Consumers)
Mr. Steve Dorey (representing Transmitters)

Advisory Committee members on Conference Call:

Mr. Paul McMillan (representing Marketers/Brokers)

Advisory Committee members Absent:

Mr. Bruce Campbell (representing IESO)

Presenters:

Mr. Bill Wilbur (IESO)
Mr. Ken Kozlik (IESO)
Mr. Peter Sergejewich (IESO)

Invited Guests:

Mr. Paul Shervill, V.P. Electricity Sector Development OPA
Mr. Rick Jennings, Ministry of Energy

Introduction

Committee members agreed to make brief presentations on their views of the evolution of the vision for the Ontario Electricity Market followed by a broader discussion.

Presentations by Committee Members on the Evolution of the Vision of the Ontario Electricity Market

Representing Distributors Sector – Brian Bentz and Don Thorne

Mr. Bentz and Mr. Thorne's presentation is available on the website at http://www.ieso.ca/imoweb/consult/stakeholder_ac_meetings.asp. Mr. Bentz said that

although this is an important issue it is not in front of the minds of distributors who are addressing other issues such as smart meters, conservation/demand management (CDM), retail protection plan (RPP) rates, and customer issues. Today's comments are based on feedback from the Electricity Distributors Association (EDA) executive council and personal views; there is significant variance among distributors given different sizes, customer bases and issues.

The present situation looks like a centrally planned regulated market: prescribed government contracting for new generation; integrated system plan with prescribed percentages for supply mix; regulated prices for almost 70% for the province's generators and loads, and; smooth (perhaps subsidized) pricing for default supply. The regulator sets the price for renewables and other incentives through the standard offer program and there is no plan to move off this in the short or medium term.

It is not sufficient to just let the market forces work themselves through, providing incentive to new generation through price signals. Ontario must avoid the big bang approach to market evolution and proceed with incremental steps towards a more competitive market. The focus must be more on process not the end state. The government will not let go until it is convinced the roller coaster of price volatility will be avoided.

In the current market, supply adequacy is a major concern. The current spot market price provides insufficient incentive to invest in new generation initiatives. Pricing is predominantly controlled through price caps and government controlled RFPs. The off-coal initiative puts pressure and uncertainty on supply adequacy issues and there is not a shared vision among market participants on where the electricity industry should be in five to ten years.

The goals of the market vision should include stability from a reliability stand point and some sort of reliability from price. It should not avoid price volatility altogether, it can send the right price signals especially in unusual or emergency conditions, but wildly fluctuating pricing is not a desired outcome in normal conditions. Economic dispatch is a desired outcome. Due consideration must be given to promoting conservation and being environmentally responsible. The design should also result in improving Ontario's competitive position through pricing levels and high degrees of reliability and even innovation in respective product offerings.

Some, not all, distributors endorse a day-ahead market; it discourages gaming in the real-time market, it assists with short-term reliability and it acts as an intermediary between real and forward markets. There is a need to demonstrate the cost benefit of implementing a day-ahead market. Operating reserves should be a separate market, but demand response should form an integral part of developing that operating reserve.

Neither distributors nor the province at large have an appetite for locational marginal pricing.

How much should be settled in real-time versus bilateral or forward contracting or through regulated pricing? Less than what is currently in real time would be a good starting point. Demand response is important moving forward. Before things are changed like 12x ramp rate; give loads and consumers the opportunity to respond to increasing prices in markets that have high demand before giving benefits or incentives to supply in those conditions.

The final comment is to recommend an evolutionary approach and not a revolutionary approach.

Don Thorne

Regulatory and legislative uncertainty, supply adequacy and volume of market changes are significant concerns. Price caps and fixed prices do not produce appropriate investment signals. An effective forward energy market and capacity market is needed to address capacity requirements. Current retail market regulated prices do not incent appropriate customer behaviour; some kind of scarcity pricing is needed whether it is critical peak or demand response. There is a need for greater access to data, including emission data.

Load serving entities (LSE) are key to addressing supply and market power concerns. LSEs enhance management of risk and likely need to be big with substantial balance sheets and strong credit. LSE's may function effectively in conjunction with the current supply auction model. LSE's must not distort consumer decisions regarding competitive retail suppliers.

A clear and unified vision is needed. That is, a market vision that takes a pragmatic and realistic approach to the challenges that face the current hybrid market. It must proceed with enhancements such as load-serving entities, the day-ahead market and other forms of market enhancements, focusing on both the process evolution as well as the end state market design, and political realities.

Mr. Bentz clarified that distributors do not have a consensus view on load-serving entities, there are different risk appetites. From his perspective, at the present time, local distribution companies (LDC's) lack the core competencies to be LSEs. Mr. Thorne said that a certain amount of volatility will be tolerated, not sure what that amount is. Mr. Bentz said there are two components, predictability and volatility. When consumers are told they must pay the true costs of power they are more agreeable to price increases. But when they are told that prices are going down and they go up, you will get a negative reaction. It's about managing expectations. Predictability trumps volatility in this case.

Mr. Picardi asked where the balance is between volatility and predictability. Is it the IESO's role to provide predictability and volatility and create mechanisms within the IESO to manage that, or is it their role to administer a competitive market or is it both? Moving forward from a hybrid market this issue must be addressed. Mr. Thorne said it's a balance.

Representing Residential Consumers - Julie Girvan

Ms. Girvan expressed her difficulty in getting meaningful input from residential consumers about the vision for the IESO. She feels the challenge for the IESO is determining the best way to ensure reliability and provide power at a reasonable cost.

Representing Commercial Consumers – Chuck Stradling

Mr. Stradling said they certainly support the vision of the IESO which is a vibrant competitive market. Building Owners and Managers Association (BOMA) has always supported going to competitive markets over the years. BOMA has some concerns with the current hybrid market – as everybody does - which is a political vehicle that does not represent the properly functioning competitive market that everybody would like to see. Market pricing is so complex that most commercial consumers have no idea from one day to the next what their electricity costs are going to be. Although commercial consumers pass most of these costs on to their customers; they must in turn represent their customers' interests. BOMA concurs with the IESO's comments that the evolving Ontario electrical market is aspirational and the government policy announcements suggest align with this vision.

Though the IESO has the word market removed from its name and fostering competitive markets is not in their objectives; the IESO should retain fostering competitive markets as a priority. The IESO is arguably the most viable vehicle to effect changes, ensure proper co-ordination with the Ontario Power Authority (OPA) and the government, while soliciting stakeholder input throughout. BOMA appreciates the IESO's efforts to obtain stakeholder input; it is one of the hallmarks of the IESO.

BOMA fully supports all of the IESO's priorities, especially with respect to their responding to the needs and the concerns of stakeholders. Throughout the tumultuous market changes experienced in Ontario, BOMA recognizes the IESO as having provided the most consistent vehicle to formally gather stakeholder input and debate issues. More recent changes to the stakeholder process demonstrate the very real commitment by the IESO to gaining critical input on all important decisions. BOMA feels that the IESO is on the right track.

Representing Marketers/Brokers - Matthew Picardi

The marketer/broker sector had a meeting and developed some guidelines and principles. There is agreement with a lot of the comments already made: recognition of the current hybrid market; that it is going to take time to evolve to a fully functioning market; no expectation that it will happen overnight. Marketers/brokers can provide an important role to the energy sector as long as it is moving forward with a competitive model in terms of providing liquidity and providing customers with products they need such as forward products to hedge.

The role being played by marketers/brokers needs to be acknowledged in the evolution. They need a commitment that the market is moving forward with competitive competition, whether it is through the IESO or government policy. This will help bring more players, liquidity and investments to the marketplace. The IESO seems a little hesitant to move forward with the initiatives that will help marketers function in the market successfully and the IESO could use a little more direction from the government. At a minimum, if it views its role to be to administer a competitive market, it should press forward with initiatives such as the day-ahead market and 12 times ramp rate issues or other issues that would mute price signals at least at the real-time spot market level.

Marketers/brokers focused on the IESO's role. Maintaining reliability of the IESO control grid is a bedrock item. The IESO should act as a clearing house that settles all the markets administered by the IESO. Rule changes make it difficult to operate in the market; it can impact the ability to return the expected return or it creates more risk than anticipated. The decision process for rule changes should be fully transparent, which it is not. It is getting better but it remains to be seen how that is working in addition to predictability in the rule change process.

Three key objectives were identified and one of them is establishing the day-ahead market. The day-ahead market will permit marketers and certain generator parties in the market to manage their exposure better and that will probably help reduce volatility in the market. Implementing key pricing initiatives should take place such as addressing 12 times ramp rate. The day-ahead market should be addressed as quickly as the pricing initiatives or, if it cannot be addressed in conjunction with that, as soon as possible.

There should be more participation by more participants, at least in the stakeholder process. Some brokers and marketers feel that some of their views may not be aptly considered in the current process. The IESO should be seeking some direction from the government to move forward with these initiatives.

The final point relates to market surveillance in other markets in which an independent advisor considers how the markets are operating and provides advice on rules that will help the market work more efficiently as well as help deal with volatility issues. The IESO could hire an independent advisor, with the benefit of extensive experience in other markets, on a contracted basis. The independent advisor would be charged with analyzing what they think is happening and identifying some priorities that market surveillance panels might not see. Mr. Whyte said that market monitors made presentations to FERC last week and commented that his company spent more time on responding to market surveillance on Ontario than in other markets.

Mr. LeMay questioned the independence of a monitor paid by the IESO. Mr. Picardi said that though that has been a criticism in the U.S., his experience was that they do act in an independent fashion by making recommendations for rule changes to address practices that are not optimal. If a contract is not renewed it is open to market participants to challenge the decision. A general discussion followed regarding the role of such independent monitors. Mr. Rivard of the IESO observed that in the U.S. there is more sharing of information as a result of consultants working in a number of different markets. In Ontario the market monitor only works in Ontario. The U.S. consultants can provide a higher level understanding of other markets.

Representing Embedded Industrial Consumers - Mike Humphries

Similar to Ms. Girvan, Mr. Humphries commented that it was difficult to obtain input from his constituency. By way of example Mr. Humphries noted that small consumers are not well represented on the Energy Committee of the Ontario Division of the Canadian Manufacturers & Exporters Association which he used to obtain input.

The end result of an Ontario electricity market should be a reliable stable supply of reasonably priced electricity – the cost from a supply mix that does not artificially exclude any supply option out of hand. Environmental concerns should be addressed through environmental regulations and not the rejection of a type of generation.

Energy markets, as with other commodity markets, have moved away from supply and demand considerations to include other factors which have led to increasing price uncertainty. The IESO should focus on reliability and making the current market work, and avoid gaming and unfair pricing. Mr. Humphries expressed his personal view that the insurance premium to obtain price certainty was too high, leaving one with price volatility. Small embedded industrial consumers were in the most difficult position because they either deal with high cost price certainty or price volatility that is difficult for them to address. Market evolution will depend upon the government's views of the supply mix and the supply demand balance. It is difficult to rely on a market while you lack supply, and rely on a long-term multiyear process of high prices to drive supply. Consumers in Ontario do not want subsidization, but a market price which is

established without the exclusion of supply options. Excluding supply options drives the price up.

Representing Generators - Daniel Whyte

Mr. Whyte spoke on behalf of the generators reflecting a number of conference calls and more detailed discussions. The vision discussions are ongoing and what has been present is a draft, though not adopted by APPrO.

Mr. Whyte commented on the sense of fatigue and resignation among generators regarding the market that exists now.

Generators believe that the IESO should focus all of its efforts on three key objectives: 1) maintaining the reliability of the IESO controlled grid; 2) improving the cost effectiveness of its processes and making them more market participant-oriented and 3) improving the economic efficiency of prices in the administered markets. The proposed IESO vision rests on the assumption that the current hybrid model will be replaced by a fully competitive market. However, it is clear that the priority for policy-makers is stabilizing the current system and as a result, the hybrid model could continue to exist for some significant time. The IESO vision should reflect this reality. The broader public policy questions surrounding the future of the electricity system in Ontario should be left to market participants and to policy-makers and governments. The IESO should not advocate for a particular end-state for the industry when the timeframe for market evolution is unclear.

By narrowing the scope of its activities to three key objectives the IESO can reduce the transaction burden on the market participants associated with being in the Ontario market. There are significant flaws in the current market that undermine the market efficiency including 12X ramp rate, excess dispatch instructions and inter-ties not being allowed to set price.

Fixing these problems while introducing an appropriate and cost effective day-ahead market will create a firm foundation for full market evolution when full market evolution is appropriate. Generators want a fair opportunity to earn a fair rate of return on their investment. They can adapt and operate successfully in either a hybrid market or a fully competitive market if and when it comes. The IESO continues to play a vital role in Ontario's electricity sector and can best serve the interests of market participants by providing the best value that it can in its own operations and in the current context, while remaining flexible enough to respond to future challenges when the government presents those challenges.

Representing Wholesale Consumer Market Participants – Adam White

Mr. White stated that the legislation is quite clear in terms of setting out a range of objectives. The objectives are to protect the interests of consumers, to ensure a

financially viable electricity industry and to promote efficiency and cost-effectiveness in the operations of the electricity industry. There are intrinsic risks in the electricity sector. Risks related to weather, technology, equipment, market and financial risks. AMPCO members find it most challenging to succeed in jurisdictions that have deregulated.

AMPCO believes the current hybrid situation will be around for some time. The contracts entered into in previous decades as well as contracts being entered into now will endure for some time. The role of OPG's heritage assets is going to be enduring and it is not going to be entirely competitive. There was also a policy decision to socialize some of the debt from the restructuring of Ontario Hydro. There is a critical need to invest in both generation and transmission infrastructure; to be pragmatic about what the current situation is and how those investments are going to be best made.

The IESO name change from market operator to system operator is more symbolic; it gives the IESO a more distinct role in operating the system and puts less emphasis on managing the market. There is a role for government policy, market forces (the discipline of markets regarding investments, allocating risks and managing risks as efficiently as possible), and regulation (to deal with monopoly aspects of the industry) to create an environment that is conducive to making appropriate investment decisions for AMPCO members. The IESO's objective is not about creating a hypothetically perfect end state for the electricity sector.

The IESO has an important role to play and can improve what it does (directing the operations of the grid, optimizing dispatch of generation and billing and settlement for wholesale market participants). An evolution towards a fully competitive market is not necessary or sufficient to achieve those objectives. AMPCO is open to an appropriate business case that clearly articulates benefits and costs and demonstrates benefits to consumers of change.

AMPCO is strategically working towards a desired end state. There is a need to be pragmatic now. It is not all or nothing. The general view is that the market did not pan out the way it was expected to. There are fundamental prerequisites to the competitive market route (the MacDonald Committee Report got it right) including dealing with market power, and allowing competitive market forces to make supply decisions. At present OPG is left with 70% of the market and market forces are not permitted to make decisions so there is a need to proceed pragmatically.

Mr. Boland commented that when the market was opened it was a leap of faith based in part on the frustration with the old system which had its flaws. Some benefits have been delivered. There has been a lot of frustration that has left participants a little jaded to think that the next step should be on a leap of faith. A very pragmatic approach, a very business-like approach makes sense. Mr. Picardi agreed that a pragmatic approach is

needed but emphasized the need to look at the circumstances when that leap of faith was taken. The province was moving to competition and trying to get a wholesale price that appeared to be very low. Now with the current supply situation there are high input prices.

Representing Transmitters – Steve Dorey

Any market vision must address the concerns of consumers: adequate and reliable supply, stable and predictable prices, environmental soundness and understandable to both consumers and producers. The model also needs to reflect Ontario realities. Mr. Dorey observed that the market needs credit-worthy counterparties able to enter into long-term contracts. Adequate supply and predictable prices will most likely be realized through a contract-based market with a small balancing market. Transmission has to be an integral part of any market vision. The government has not addressed the transmission issues in the same way as generation issues. Adequate and reliable transmission is essential as the risk associated with inadequate transmission infrastructure is unacceptable and outweighs any costs associated with pre-building transmission. Under normal circumstances, the transmission grid should be largely congestion free. While transmission needs to be planned in an integrated fashion and take account of the potential generation investments, it needs to be constructed ahead of generation.

Within the context of the OPA's integrated system plan, the principal transmitter in the province, Hydro One, should plan the transmission system to meet the following objectives: ensuring transmission reliability, enabling supply adequacy, ensuring the removal of transmission related barriers and ensuring that public sector policy goals are delivered efficiently. Unlike the broader market vision, a transmission vision is something that is reasonably straightforward. There are models in Alberta and British Columbia that work just fine.

In response to a question, Mr. Dorey said that if there is a hybrid now, it is really a hybrid between OPA-based contracts and regulated OPG production. The spot market is largely a fiction. A contract-based market is needed where generators contract with some credit worthy party, the OPA seems to be the one that is at hand. LSEs could possibly develop. It would be helpful if OPG moved more towards contract-based activity rather than cost plus pricing. Treating OPG as essentially a cost of service entity doesn't encourage the right kind of activity on their part. Ontario needs to move to a contract-based market and having 70% of the market regulated is not constructive in that context. The active purchaser on the contract market at this point is the Ontario Power Authority. If you have LSEs that essentially are cost-pass-through entities and you average their prices across the province that is not very different from what the OPA is currently doing. It just adds another set of parties that do basically the same thing, i.e. pass their costs through to consumers. That does not add a lot in the short term.

In response to a question about OPG, Mr. Dorey commented that under the current rules OPG will incur whatever costs it incurs and the rate payers of Ontario will pay those. He suggested that with a fixed price arrangement like the Bruce Power contract, if OPG loses money the owner of OPG would have to deal with that. That would probably move towards creating the right kind of incentives. It would also open the possibility that OPG could sell off part of its output through long-term contracts and potentially move more toward a contract-based market. He clarified that the output from the “heritage assets” would be priced by the market, but that the price reduction that is inherent in that needs to be delivered back to consumers one way or the other. It could be used for example to pay down the stranded debt - sell off the contracts, reduce the debt retirement charge and provide a price reduction that way rather than through lower prices for OPG output. Though Mr. Dorey advocated a grid that is largely congestion free he said that there will be situations where generation is a reasonable and practical alternative to transmission. That will tend to be in areas that are congested pockets and it is a substitute for transmission in that context. In these circumstances generation might be considered a regulated asset and that capacity should be paid or regulated in return.

Representing Environmental - Bruce Lourie

Similar to residential consumers, the environment sector isn't easy to coalesce. Mr. Lourie spoke with a number of knowledgeable people in the sector concluding that there is a fair bit of support for the direction of the marketplace as described in the IESO mission. It is difficult to find a middle ground between the current discussions at a high policy level or detailed conceptual level. The environmental community for the most part focuses their efforts on organizations like the OPA, the Ministry of Energy and the Ontario Energy Board (OEB) and is generally less aware of what the role of the IESO is. There is concern around trying to understand what the distinction are between those roles and where the accountabilities are.

Mr. Lourie discussed the role of the IESO as a gatherer or provider of information so that people can make choices in the marketplace, commenting on the loss of information to support an understanding of what is happening in the marketplace; information that had been available 15 years ago. Another issue is whether it is true cost or full cost or hopefully low cost, and not having subsidized electricity. The change from the IESO demand response program to the emergency response program, signals that demand response wasn't really a priority for the IESO. Emergency response is conceptually a very different idea and if demand response is a subset of a crisis mentality model, then it is not going to be incorporated effectively into the market planning. There is an expectation that some level of policy and regulation is looking out for public concern. Be careful about talking exclusively about a business case as they almost always rule out the environment unless it is explicitly costed. There is a need to look at what is behind

the decision-making that went on then and recognize that it was very misguided management that got Ontario where it is today.

Mr. Boland asked whether the opposition to subsidization, was a reference to the future design or existing subsidies. Mr. Lourie clarified that in relation to subsidization he was referring to both future design and existing subsidies. For example, the entire Canadian nuclear industry is hugely subsidized at the federal level, things like that seem out of step with the concept of an efficient market place. Mr. Lourie said that in relation to demand response although the OPA is doing work on the programming side the IESO should take a complementary role and aggressively pursue demand response as a priority. Mr. LeMay commented that it is clear now that the role of the OPA is to get demand response vs. emergency demand response which is the role of the IESO. They are very different products.

Mr. Kozlik for the IESO:

Mr. Kozlik said that the IESO had put forward a possible vision earlier this year as a vehicle to stimulate discussion. Today was a chance for the IESO to listen as opposed to providing an enhancement of what was presented earlier. The IESO is very cognizant of the need to pace progress and the potential use of transitional mechanisms as change works its way through the system. A strong alignment towards the future vision would facilitate making decisions on an ongoing basis, for example the lack of a common vision has significantly impacted the consultation on the 12X ramp rate issue.

Mr. Jennings for the Ministry of Energy:

Mr. Jennings said the government priority is supply adequacy (both generation and transmission infrastructure) to maintain and ensure a high level of reliability. The market/sector must be designed to provide consumer benefits and environmental benefits. Ministers have supported proceeding with a day-ahead market and it is seen as a way of addressing some of the concerns about price volatility, and enhancing reliability, particularly in the short term. The government would be in favour of moving to a day-ahead market without having any strong views on what the design of one would be. The clean energy supply contracts that were entered into after 2005, those all would work better with a day-ahead market in terms of the combination of gas and electricity.

The hybrid market was in effect a compromise between a fully administered market and a competitive market. The design of the hybrid market is that the market power issues around OPG are largely mitigated through regulation or their revenues limited. In moving forward, there is a need to look at the significant changes that have taken place. This is one of the reasons that there are 20-year contracts for new generation. The government didn't impose this on people. People wouldn't build unless the contracts were in place. The hybrid market is here. It can move one way or the other and it depends on a lot of factors.

Mr. Shervill for the OPA:

Not all agreed on the priority for market evolution, on the IESO plan, but he heard common threads that were very encouraging. There was no desire to go back to a fully regulated model. The discussion seems to be revolving around elements of hybrid market versus competitive market. Everyone is prepared to listen to a solid business case for evolution to a more competitive market; the value of market evolution must be demonstrated. Whatever is done has to serve the best interests of the users of the system.

Change cannot happen using the big bang approach. It needs to move ahead at a measured pace allowing for careful thought before each step is taken. The OPA is working closely with the IESO on trying to define some sort of future vision. It is important that the IESO is engaged in the market evolution and the OPA is very much engaged as well, but if you don't have the people operating real-time and day-ahead markets, understanding what the long-term market is, it isn't going to be a coherent or coordinated approach to try and develop markets. Mr. Shervill encouraged an "art of the possible approach" rather than focusing on holes and weaknesses. One can always find holes and weaknesses, but if the approach to some of these things is from the art of the possible, a whole lot more progress and opportunity can occur.

In response to questions, Mr. Kozlik said that the next big initiative will be the day-ahead market. The IESO will be seeking the input of market participants to help with both the benefits and expected costs prior to proceeding with major market initiatives. Mr. Shervill commented that the OPA is working very closely with the IESO. There are many areas in the memorandum of understanding where the IESO and the OPA are sharing information and analytical capability. On the demand response front the OPA is taking the lead and the IESO is looking after the emergency demand response.

The Committee members suggested themes for further discussion:

Vision

- IESO, OPA and government need to have a shared vision.
- Do we collectively need a vision..... Ontario Vision.
- What is the government's view of the IESO vision? IESO needs to define its role with government.
- Need a shared vision around demand response.

Investment

- Need to find a way to build things.... Toronto has poor conditions both supply and transmission.
- System should normally not be congested... transmission and generation should be planned in an integrated way but transmission needs to be built first.
- Should transmission investment be driven by the economy or reliability?

Off Coal Program

- Off coal timing moved from 2007 to 2009. Is this realistic? Need to collectively discuss this and resulting reliability issues.

Market Evolution

- Day-ahead market (DAM)
- Locational marginal pricing (LMP)
- Should we invest in a day-ahead market without introducing LMP?
- Demand response
- Explore the concept of load serving entities
- Real time market enhancements - need to fix existing market and what's wrong. Need to get our head out of the weeds ex. 12x ramp rate.
- How do we sequence the above issues without having a common vision?

Consumers

- Consumers need to benefit from the changes and consumers need to be kept in mind when making these decisions.
- As a consumer, how do these changes fit into the future.....what will be the benefits and will they benefit in the long run?

Mr. Whyte commented that an IESO vision, a government vision, an OPA vision... even a shared vision is not needed but a rather an Ontario vision. Ms. Dade from Direct Energy commented that there is a need to know what the government vision is. Mr. Jennings noted that the government has set out things like the Electricity Restructuring Act, the creation of the hybrid market and the coal replacement program so the real issue is that the government has set out things, but people don't necessarily like what was set out. The Government has not provided a policy, nor is it necessary to do so, on the IESO vision on market evolution. It has not closed the door to evolution.

2007-2009 Business Plan – Proposed IESO Priorities and Initiatives with Feedback on Input Received – Peter Sergejewich

Mr. Sergejewich gave an update to the proposed priorities and initiatives that will form the basis of the 2007-2009 IESO business plan. He clarified that the "vision" in his presentation referred to a corporate vision for the IESO, unlike the discussions of the morning which dealt with a vision for the market or a "market vision". The

presentation discussed the feedback received from some stakeholders and how it was either incorporated or would be considered in the IESO's view of the future and its roles, strategic priorities and a number of identified initiatives. Committee members were invited to provide written feedback on the presentation by June 24th. The business plan, in draft, is scheduled to come before the stakeholder advisory committee on September 5th.

In relation to a day-ahead market, Mr. Kozlik said that meetings are scheduled with stakeholders in June and July to discuss the high level goals of a day-ahead market and getting input on what should be put in a stakeholder plan. From these discussions a high-level design will be pursued with stakeholders that would be provided to the IESO Board for approval. The recommended design to the IESO Board will be accompanied by analysis of both the costs and the benefits of the design. Details of the design would then be subsequently determined through development of market rules, systems and procedures.

Mr. Boland felt that the initiative on the integrated resolution of real-time market pricing issues should include dispatch issues. A reliability/resource adequacy mechanism should include support from the OPA. The load serving entities issue he felt was in the distant future and would like input from others on this and that benchmarking should be done with the view of ensuring IESO cost effectiveness.

Mr. Cary from Cardinal Power indicated that one of the key problems in resolving a day-ahead market was what happens on the buy side and LSEs are one associated option. Mr. Sergejewich added that the IESO is trying to coordinate activities with the OPA and hence it is identified in the business plan. Mr. Thorne indicated LSEs are fundamental in almost every aspect of the future direction. Mr. Cary indicated that there is a need to have discussions about whether the OPA performs the LSE role in the context of a day-ahead market or not and who does. Mr. Kozlik said that this would be the type of discussions that will take place with participants around the day-ahead market. The IESO clarified that the IESO has not taken a position on the LSE concept and whether it should be LDC's or something else.

Mr. Hunt from Optimal Technologies stated that a report from the IESO indicated that coal units should be kept in some kind of stand-by status post 2009, and it is not clear whether this is a reliability issue that should be addressed as part of the reliability/resource adequacy mechanism initiative.

IESO Senior Management Update

Mr. Kozlik indicated that written updates were provided in advance of this meeting on the day-ahead commitment process, emergency load response programs, progress on dispatch issues, inter-tie setting price, Electricity Reliability Organization (ERO)

developments, constrained off payments in watch zones, elimination of CMSC for linked wheels, and IESO mission and vision.

Day-Ahead Commitment Process (DACP)

Later today there will be announcement on whether or not the program will go live on June 1. The latest reports indicate things are going very well.

Persistent and Significant Constrained-off Congestion Management Settlement Credit (CMSC) Payments

This issue identified possible gaming opportunities for participants. The technical panel endorsed the rule change and it will go to the IESO board for approval on June 8th.

Prudential Review – Not included in written updates

A prudential review is being initiated by the IESO to look at reducing the prudential burden to participants. The stakeholder plan was distributed to committee members and will be posted on the IESO web site on May 28th. A draft report with recommendations is expected in September.

In relation to the Electricity Reliability Organization (ERO) Mr. Warren of the IESO said that it is changing continuously. There will be workshop at the end of June. The IESO has invited North American Reliability Council (NERC), Northeast Power Coordinating Council (NPCC), Canadian Electricity Association (CEA), Ministry of Energy and OEB to present. Details on the format are being developed, any input is appreciated. Recent changes include: OEB have a draft memorandum of understanding to present at the workshop, based on present day Ontario, doesn't include remand; ERO implementation is targeted for Jan 1, 2007; NPCC actively involved in developing their new organization, one piece is the delegated piece that comes from the ERO and the second what the membership would like it to do.

In relation to the constrained off rule amendment it was noted that there was a vote against the amendment. Mr. Boland requested that in future he would like this highlighted in the briefing notes. Mr. Kozlik indicated that when the briefing note was written the meeting had not yet happened, but could be identified verbally.

Mr. Kozlik indicated that the 12x ramp rate issue has been a very arduous process and there was a lot of discussion about the capacity to address this ramp rate issue given the present state of evolution of the market. It was suggested that a better approach to resolution might be to coordinate discussions on the day-ahead market and real-time market pricing issues rather than doing them separately. This will be discussed at the next market pricing working group meeting on June 2nd.

Presentation on 12x Ramp Price – Presented by Bill Wilbur

Mr. Wilbur announced that this issue was deferred from the June IESO board meeting to July. The IESO was waiting for additional feedback from APPrO.

The presentation provided background on the issue, the stakeholder process undertaken and the market pricing options available in the immediate term. In discussion it was stated that of the three options presented, options two and three would require market rule changes. The 12X ramp rate is unique to Ontario.

There was some discussion about the timing of the consideration of the additional material around how the initial 12x was arrived at versus choosing 3x, 6x etc. The timing of the issue was that it would be discussed at the market pricing working group on June 2nd, with the expectation that the APPrO paper would be provided. The IESO planned to distribute the entire package regarding the 12X ramp rate, including the IESO's recommendations, no later than June 21st. This would provide the Committee with sufficient time to consider the IESO proposal prior to the July 12th Committee meeting, in advance of the proposal going to the IESO board on July 27th. A general discussion ensued regarding the amount of time available for interested parties to consider the APPrO paper, particularly given summer holiday schedules. AMPCO registered its strong opposition to the extension of time for APPrO to file additional materials without providing sufficient time for AMPCO to consider this material.

Updates:

The Committee discussed following up with the IESO regarding possible funding of small surveys to gauge the position of the residential consumer and small embedded industrial load sectors. One concern is that most members of the constituencies represented would not have an opinion due to a lack of knowledge of the issues. They will follow up with the IESO off line.

Mr. Stradling advised that twenty of the major consumers; BOMA members; met with the IESO and had almost unanimous support for the ELRP which they will work to implement.

Next Steps

Presentations made on the vision of the Ontario electricity market should be submitted in writing to stakeholder.engagement@ieso.ca. Comments on the major themes identified in the open discussion to be submitted for next meeting. Committee members were encouraged by the Chair to make themselves available to attend the IESO Board meetings to represent the Stakeholder Advisory Committee and were reminded that the schedule for Board meetings is incorporated in the Stakeholder Advisory Committee meeting date schedule on the IESO web site.