

IESO SENIOR MANAGEMENT UPDATE

To: Stakeholder Advisory Committee

Date: November 1, 2006

Subject: 12 Times Ramp Rate (SE-17)

Information Item

IESO Board Decision Date: November 17, 2006

The recommendation of IESO Management to change the ramp rate multiplier from twelve to three was extensively discussed at the September 5, 2006 SAC meeting, with presentations from AMPCO, APPrO and IESO.

While IESO Management is confident that the stakeholder process used to address this issue was conducted with integrity, we acknowledged the dissatisfaction of the consumer representatives and in particular, their concerns with the IESO's impact analysis and what they saw as the late emergence of the three times recommendation. Accordingly, IESO Management's recommendation regarding this issue was not proposed for decision at the September meeting of the IESO Board, but is to be considered at their meeting in November 2006. The additional time has been used to provide stakeholders with a better understanding of the IESO's impact analysis¹, and an extended opportunity to respond to the three times alternative.

Over the past month, IESO staff have met with consumer representatives from AMPCO on two occasions to discuss our analysis of the expected impacts on consumers' bills of the proposed change in ramp rate. This analysis indicated that the OPG rebate and the various components of the Global Adjustment significantly limit participants' exposure to potential price changes that could emerge under an alternative pricing measure. Currently, these components conservatively fix the price for 75 percent of energy transacted in the market. This price mitigation feature of the Hybrid Market has been independently confirmed by the consulting firm Navigant Consulting. While AMPCO now accepts our impact analysis on the substantial offset provided by the Global Adjustment and OPG rebate, they do not agree that the proposed solution is appropriate.

¹ Further details and explanation of this analysis are available on the IESO web site at the following link: http://www.ieso.ca/imoweb/consult/consult_se17.asp



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One of AMPCO's concerns is their belief that the definition of the problem that this issue is based upon has changed from a dispatch issue to an efficiency issue. In the IESO's opinion, the "problem" with the use of a twelve times ramp rate multiplier has always been about efficiency. This was identified in the original paper describing this issue written by the Market Pricing Working Group in June of 2004, and reinforced in January 2006 when the MPWG began its concerted effort to solve this issue.

Replacing the 12 times ramp rate assumption in the pricing algorithm with something that would better signal the dispatch effects of the actual ramping capabilities of generators should improve both the allocative and dynamic efficiency of the market and start to address some of the concerns identified by the OEB's Market Surveillance Panel. Improved market efficiencies would benefit all market participants.

IESO Management's recommendation that the ramp rate multiplier in the unconstrained schedule be reduced from twelve to three will be considered by the IESO Board at its meeting on November 17, 2006. If adopted at that time, the ramp rate multiplier change would occur 22 days after the Board's decision.