

IESO Stakeholder Advisory Committee

TO: IESO BOARD OF DIRECTORS

DATE: April 24, 2007

FROM: STAKEHOLDER ADVISORY COMMITTEE

SUBJECT: **BRIEFING NOTE**

The purpose of this memorandum is to update the IESO Board of Directors on the April 4th Stakeholder Advisory Committee meeting. With two exceptions the meeting was attended by all members of the Stakeholder Advisory Committee as well four Board Members. In addition to the IESO Senior Management Update presentations were made on the SMART Meter Meter Data Management Repository, the IESO Prudential Review, the Ontario Reliability Outlook, the IESO's response to the Market Surveillance Panel Report and the recent IESO Customer Survey.

Specific Actions by the Committee

The Committee wishes to advise the Board of the following specific action that was taken:

1. The Committee endorsed the recommendations of the IESO Prudential Review subject to a more frequent review of the overall policy.

Discussion Highlights: Day-Ahead Market Stakeholder Plan

Mr. Campbell advised that the DAM Stakeholder Plan has been revised to incorporate open stakeholder meetings, the first of which was scheduled for April 11th. The Plan will address the request of the Committee for an educational session but does not at this time include the establishment of a formal working group.

Discussion Highlights: Reliability Standards Steering Committee

Mr. Campbell reported that the initial meeting was held March 30th and the OEB's remand authority was a discussion item. While stakeholders have expressed a need for a timely interim remand mechanism it is currently indeterminate when the anticipated legislative amendment will be completed. During the interim, it is not anticipated that a reliability standard will create an issue given the lengthy stakeholdering and approval process associated with the development of new standards.

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Discussion Highlights: Stakeholder Plans – 2008-2010 Business Plan & Corporate Performance Measures

The stakeholder plans were published and input requested by April 18th for discussion at the next SAC meeting.

Discussion Highlights: Day-Ahead Market

Based on comments received at the previous SAC meeting a series of open stakeholder sessions have been added to the Stakeholder Plan. As also outlined in the Plan questionnaires were circulated, responses received and the associated input provided as input to the first open session on April 11th. IESO staff will follow up directly with respondents to obtain further input. Mr. Campbell stated that the IESO wants to ensure that any enhanced day-ahead arrangement will provide benefit to stakeholders. The IESO wants to respond to the needs of market participants given the nature of the current market.

Mr. Dorey enquired if cost-benefit analyses would be performed for the various DAM options? Mr. Campbell indicated that the IESO plans to perform them on several levels, identifying both quantifiable benefits as well as more intangible items. The IESO is initially looking at the overall benefit to the province and then considering the implementation costs and potential bill impacts from various market perspectives.

Mr. Campbell advised that a strawman proposal will not be included in the April 11th open session as it would be premature to do so. Mr. Horrobin commented that the generator community feels working groups are a useful approach. Mr. Campbell responded that at this stage it is felt that gathering information from individual stakeholders is beneficial and that a working group may be considered at a later date.

Discussion Highlights: Seams Issues/Efforts

Mr. Campbell provided an update concerning efforts to address ongoing seams issues. These same issues are being discussed at the Inter-tie Trading Standing Committee on a technical level.

Discussion Highlights: Agency Review Panel

The first issue being dealt with by the Panel is executive compensation. Information has been provided to the Panel for its reporting to the Government. The timing of the remainder of the Panel's work is currently unknown.

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Discussion Highlights – IESO 2007 Rate Case

On March 21st the OEB approved the IESO's rate case settlement agreement. Highlights from the agreement include:

- Reduced usage fee from 0.909/MWh cents to 0.815/MWh cents;
- A \$ 12.7 M refund from operating services accumulation
- Revenue requirement of \$ 140 M
- Capital expenditure level is stable

Also as part of the agreement the IESO undertook to establish a Consumer Forum. The terms of reference, workplan and framework will be defined shortly. The terms of reference are expected to evolve through the course of implementation.

Mr. Campbell agreed to follow up on the question as to whether the reduction in IESO fees will be seen by retail consumers.

Discussion Highlights: Market Rule Amendment – Ramp Rate Multiplier

AMPCO initiated an application for review by the OEB of the proposed ramp rate rule change. Following a short hearing the OEB announced its decision with reasons on April 10th dismissing the application. In response to a question concerning the impact on the IESO of the work required to support the hearings, Mr. Campbell advised that the resource requirements were substantial and that it had delayed the follow up work on the response questionnaires as part of the Day-Ahead Market stakeholdering process.

Discussion Highlights: SAC Committee Members Orientation Session

Mr. Humphries commented that the orientation session was very useful in understanding IESO operations and responsibilities as well as providing a context for issues.

Discussion Highlights: SMART Meter Data Management Repository

Mr. Bentz indicated that as part of the initial rollout 800,000 SMART meters (20% of the province) will be installed by late 2007/early 2008. Mr. Bentz explained that the initiative involves a number of components including the actual SMART meter, the LDC infrastructure to integrate the meter and the central repository to hold the information. The IESO is responsible for project management for the development of the meter data repository (MDM/R) and is subject to the oversight of the Program Advisory Committee as opposed to SAC.

Mr. Limbrick, at the request of SAC, provided an information briefing on the MDM/R. He indicated that there are two ways to communicate metering information to consumers (telephone, internet) and that the data is available by 8:00 a.m. the day

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following the meter reading. The IESO is currently discussing with LDC's options for the web presentment of data. Several LDC's are also experimenting with various devices to provided real-time data to consumers. Mr. Limbrick clarified that the MDM/R is not an asset management system. The Government has yet to establish a go-live date for time-of-use rates.

Mr. McMillan questioned whether the MDM/R would be communicating with the system of record in individual LDC's. The current expectation is that the IESO will aggregate the meter reads by time-of-use buckets eliminating the need for LDC's to maintain hourly meter read data in their own systems. Mr. McMillan commented on the challenge of maintaining both scope and cost control on this project. Mr. Limbrick responded that the project is currently under budget, that the 4 million SMART meters can be acquired by 2010, that the value of the IBM contract to develop and manage the MDM/R is \$ 43 M and that a cost-benefit analysis was completed by the MOE or the OEB in advance of IESO involvement in the project.

Mr. Bentz enquired if the IESO has discussed with Retailers their possible migration to a time-of-use offering/pricing with the pending implementation of time-of-use rates. The IESO is engaging with Retailers through working groups. There will be some technical limitations that apply to Retailers on Day One of the program.

Discussion Highlights: Prudential Review

Ms. Martin delivered a presentation outlining the recommendations arising from the prudential review and provided SAC with an opportunity for further input. Since market opening there are four market participants that have either gone bankrupt or are in the process of liquidation. The default levy is based on the credit rating of the market participant, which assesses the financial health of that participant. However, the majority of market participants (86% of LDC's, 81% of Loads) currently are unrated or do not have credit ratings.

Mr. McMillan asked if the IESO would review overall exposure by quarter by market participant, both rated and unrated, to get a sense of whether overall credit exposure is increasing or declining based on the level of transactions and how counterparties are moving. The IESO responded that the news is monitored on a daily basis for changes in credit exposure. A follow up question involved the IESO's methodology for stress testing. The stress test is against the probability of bankruptcy because the reasons for bankruptcy are dependent upon more factors than just the price of electricity.

In response to a question about the application of this procedure to all ISEO activities, Ms. Martin stated that that financial transmission market is operated under a different prudential regime. Consequently, a single participant that is both a wholesale and a financial market participant cannot offset their prudential exposure. Mr. Horrobin

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indicated that an APPrO Board meeting raised concerns about the treatment of “good payment history” as a company moves through different economic cycles.

Mr. Bentz then requested the Committee members’ input on the recommendations. Mr. Whyte supported the recommendations with an amendment to review the prudential policy every two or three years rather than every five years. Mr. Horrobin and Mr. Dorey both supported the recommendations and the proposed amendment. Ms. Girvan supported the recommendations viewing the changes as positive from the perspective of both customers and LDC’s. Mr. McMillan also supported the recommendation and amendment but wanted it noted that he had heard the IESO agree to review the separate treatment of prudentials as they relate to Financial Transmission Rights. Mr. Reeves commented that it is appropriate for LDC’s to continue to be treated differently. Many of the Committee members commented on the excellent work of the IESO on this project. Mr. Bentz summarized the discussion by stating that the Committee endorses the recommendations with a more frequent review of the overall policy.

Discussion Highlights: Ontario Reliability Outlook

Mr. Murphy delivered an overview presentation on the most recent Ontario Reliability Outlook which concluded that the future outlook is much improved for a variety of reasons. The increased generation under OPA contract, the delay in the phase-out of coal-fired generation and CDM initiatives have combined to improve the overall outlook. Nevertheless, there are concerns with respect to approval processes and the fact that a lot of the new generation coming online is non-dispatchable.

Mr. Bentz enquired about the effect that transmission planning and the environmental assessment process have on the supply outlook. Mr. Murphy responded that transmission constraints lower the availability of installed capacity making some of it unavailable. Mr. Bentz asked if the IESO has been working with the OPA to ensure grid stability when Nanticoke is taken out of service. Mr. Murphy indicated that various options are being explored and that the OPA is well aware of Nanticoke’s importance.

Mr. Whyte requested an update from the IESO on ancillary services reliability. The IESO is currently reviewing ancillary services including load following capabilities and requirements within the province. Mr. Horrobin enquired about the IESO’s confidence in the OPA to meet their short and mid-term CDM targets. An OPA report is forthcoming on this issue. While the IESO would like to see the CDM programs at full-contribution level by this summer, that is unlikely. The 2008 forecast reflects some of the OPA expectations.

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Discussion Highlights: Market Surveillance Panel Response

Mr. Finkbeiner summarized the action items associated with the Market Surveillance Panel (MSP) report and indicated that the IESO has committed to make public recommendations or responses to the MSP recommendations from the various MSP reports and to create a tracking mechanism for these responses and the status of the recommendations. This tracking document is expected to be available by the end of April based on the last two MSP reports with additional tracking of earlier MSP reports being added at a later date.

Discussion Highlights: Customer Survey

Mr. Stewart from Navigator delivered a presentation on the key findings from the Customer Survey. Mr. Whyte asked three questions: 1) If the OPA and IESO were still considering coordinating their stakeholder engagement efforts, 2) If Navigator was able to gauge the relative approval ratings of the OPA, the MOE or the OEB and, 3) whether a member of SAC represents a sector or is representative of a sector. Mr. Campbell responded that: 1) The OPA and IESO had concluded through discussion that the OPA needs to engage a broader stakeholder audience, 2) The survey did not address the approval rating of other organisations and, 3) Survey comments confirm that there is confusion as to whether SAC members are representative of or represent a sector.

In response to a question from Mr. Humphries it was indicated that all interview subjects were direct market participants but that the responses do not reflect proportional market participant representation because it was difficult to get some customer categories to participate.

Mr. Young presented the IESO's Action Plan in response to the survey. Mr. Humphries enquired about surveying embedded customers. Mr. Young responded that the IESO wanted to complete the survey first and will then look at ways to reach embedded customers. Mr. Dorey noted that the action plan did not appear to address the two principal concerns of stakeholder engagement and market rule making and asked if further research had been completed on these areas. Mr. Stewart responded that through the survey they concluded that the two issues were closely linked but difficult to differentiate as causal factors. Mr. Whyte stated that we are really interested in the deviation from the norm and how deviant is the IESO from the norm of customer satisfaction. Mr. Stewart indicated that the research in this area was qualitative not quantitative and a normative value does not exist. He further commented that the IESO is an organisation that is performing well and meeting its customers' expectations. Mr. Dorey stated that the Committee should have a larger discussion of rule making processes in other jurisdictions and consider whether there are other opportunities for improvement.

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Mr. Campbell indicated the IESO will raise the issue with other ISO's try and develop a relative measure of customer satisfaction related to stakeholder engagement and rule making. With respect to sector representation Mr. Bentz commented that every constituency has a common interest but not necessarily a homogenous interest. Mr. Alpajaro advised that when this item was discussed at the Technical Panel it was determined that most of the scores on the issues of stakeholding and rule making were rated as 7's instead of 8's so the issue may not be as bad as it is being portrayed.

Discussion Highlights: Feedback from Joint Meeting

Mr. Bentz summarized the discussions that took place at the joint meeting including incremental market evolution, the general consensus for a day-ahead market initiative, looking at the broader electricity market to see if we can coalesce a vision around market evolution over the short to medium term, measuring effectiveness of the Committee's ability to represent their sectors and the ability to stakeholder.

Mr. Bentz, Mr. Humphries, Mr. McMillan and Mr. Whyte all commented favourably on the usefulness of the joint session and how it helped the Committee understand how it can better serve the Board in its role as advisors. There was also a degree of consensus that given the political environment in the province (pending election) that the focus needs to on an incremental approach rather than developing a grand vision bringing forward initiatives such as Day-Ahead Markets and the successful work on prudentials.