

IESO Stakeholder Advisory Committee (SAC)
Minutes of Meeting
June 6, 2007, 9:30 am
Metro Toronto Convention Centre

Advisory Committee Members in Attendance:

Mr. Brian Bentz, Chair (representing Distributors)
Mr. Bruce Campbell (representing IESO)
Mr. Steve Dorey (representing Transmitters)
Mr. Richard Horrobin (representing Generators)
Mr. Mike Humphries (representing Embedded Industrial Consumers)
Mr. Paul McMillan (representing Marketers/Brokers)
Mr. Matthew Picardi (representing Marketers/Brokers) – present via conference call
Mr. Doug Reeves (representing Distributors)
Mr. Chuck Stradling (representing Commercial Consumers)
Mr. Daniel Whyte (representing Generators)

Advisory Committee Members Absent:

Mr. Bruce Lourie (representing Environmental)
Mr. Colin Osborne (representing Wholesale Consumer Market Participants)
Ms. Julie Girvan (representing Residential Consumers)

Presenters:

Mr. Mark Wilson
Mr. Peter Sergejewich
Mr. Martin Hastings

IESO Board Members in attendance:

Mr. Rudy G. Riedl (Interim Chair)
Ms. Roberta Brown
Mr. Paul Murphy
Mr. Mike Naeve

Introduction – Brian Bentz

Mr. Bentz welcomed everyone and thanked the Board of Directors for their attendance. He noted that at the last meeting the Committee was informed that the reliability situation is much improved over last year, and commented on a number of initiatives underway at the local distribution company (LDC) level to implement conservation demand management programs.

Agenda Item No. 2: Feedback from April 4, 2007 IESO Board Meeting

Mr. Bentz and Mr. Humphries attended the last Board meeting on behalf of the Committee. The briefing note from the SAC to the Board can be found at:

<http://www.ieso.ca/imoweb/pubs/consult/sac/sac-20070426-Briefing-Note.pdf>

Prudential Review

The SAC advisory note to the Board can be found at:

<http://www.ieso.ca/imoweb/pubs/consult/sac/sac-20070426-Prudential-Review.pdf>

The Board was advised of the Committee's endorsement of the IESO staff recommendations subject to an amendment that the overall credit policy be reviewed on a two- to three-year basis as opposed to the five-year that was being recommended. The Committee also conveyed to the Board concern about the good payment history methodology used to determine the creditworthiness of unrated companies, suggesting that the IESO should monitor its exposure on a quarterly basis and stress test the system regarding price volatilities using the regulated price plan (RPP) price changes. Subject to directing a review every three years the Board approved the IESO staff recommendations.

There was also a request to review the transmission rights (TR) policy associated with prudential support obligations. Mr. Campbell said that initially the IESO will look at simple solutions such as allowing net creditors in the real-time market to allocate a portion of their net credit position as prudentials towards participation in the TR market.

Mr. Bentz mentioned they discussed the LDC pass-through responsibility, as it relates to large customers, and the possibility of having customers greater than 5 MW settled directly through the IESO, socializing the recovery of costs across the LDC sector, and looking at better collateral provisions at the retail customer levels through amendments to the distribution system code.

Market Evolution

In relation to market evolution the Committee advised the Board that there seemed to be consensus around moving a day-ahead market (DAM) forward, although large industrial constituents expressed some concern that reliability should be the primary driver and that improving market efficiency and costs are secondary issues.

Smart Meters

They discussed with the Board the need to have a co-ordinated communication effort by the sector to inform consumers about smart meters. Mr. Bentz said one suggestion was to co-ordinate call centre scripts to provide a common message to electricity customers across the province.

SAC Role

There was also a discussion of the SAC members' role as representing constituents. The role of members is to represent their constituency, recognizing the challenges associated with representing the diversity of opinion held by constituents. Mr. Bentz said that members need to communicate back and forth with constituents to make the stakeholding process more effective, while acknowledging that it is easier for some than others.

Standing Agenda Item

Mr. Bentz suggested having a standing item at the end of future agendas for other business.

Agenda Item No. 3: Senior Management Update – Bruce Campbell

(a) Review of Action Items from April 4 SAC Meeting

<http://www.ieso.ca/imoweb/pubs/consult/sac/sac-20070606-Action-Items.pdf>

- Customer survey to expand beyond market participant to include embedded customers.

Mr. Campbell stated the IESO will be investigating this for the 2007 survey which will be conducted in the fall.

- Benchmark around stakeholder engagement and rule-making.

Based on initial discussions with other ISO's there has not been a lot of survey work done on stakeholder engagement and rule making. The California ISO does look at this and it is one that's at the lower end of their performance metrics. PJM obtained a response similar to the balance of its metrics.

Mr. Dorey said his focus was not on whether other entities get better stakeholder scores, but to look at the rule-making process in other jurisdictions and consider how other ISOs collect the input they need to make rules, what are their responsibilities relative to other agencies, and what appeal mechanisms exist.

Mr. Campbell said that the IESO is generally aware of the approaches taken in other jurisdictions, and does have discussions with other ISOs with a view to improving IESO processes. Though the IESO does undertake work of that nature, given that a full and formal review would be resource intensive, Mr. Campbell could not commit to a formal review without first considering the business planning implications.

- Prudential Review

Mr. McMillan questioned why it appeared that the IESO was linking consideration of natural hedges in the TR market with a day-ahead market. Mr. Campbell said that the IESO is looking at net credit in real-time markets in any event, but if one were to look at broader changes they should be considered in relation to other potential changes, such as a day-ahead market.

- Market Surveillance Panel Reports

Mr. Campbell said the process to post responses to the MSP reports and to track those items is underway; the IESO is now working through prior reports.

(b) Day-Ahead Market

Briefing note can be found at: <http://www.ieso.ca/imoweb/pubs/consult/sac/sac-20070606-Day-Ahead-Market.pdf>

The stakeholder engagement plan has been revised to reflect the ongoing discussions with stakeholders, pushing out the date for the IESO to bring forward proposals to August. This will allow a sufficient period of time for stakeholders to comment before management recommendations go to the Board later in the fall. Mr. Campbell emphasized that the IESO is working to ensure that it understands the specific benefits and features sought as well as the specific concerns of stakeholders. To date the IESO has spoken with approximately half of the 30 stakeholders it intends to speak with.

Mr. McMillan commented that it would be useful to obtain the Government's view of a day-ahead market given the implementation of real-time demand and meters. From Mr. McMillan's perspective the investment in real-time meters does not make much sense unless price moves freely which leads to a load-serving entity (LSE) model. Mr. Campbell said that the Government is aware of this stakeholder initiative.

In response to a question, Mr. Campbell said that in discussions with stakeholders the IESO will, as required, explain how a day-ahead market could lead to demand response and LSEs, but the main objective is to listen and understand their point of view. Mr. Whyte said that his comments would depend upon the specific design features of a day-ahead market as there are certain designs that his company would support and others that they would oppose. His preference is for the IESO to advocate a framework or early design. Mr. Campbell replied that prior to formulating a proposal the IESO needed a good understanding of what would be useful to people; the actual proposal would then be developed and circulated for comment at the next SAC meeting. Mr. Humphries added that the day-ahead market is not an end in itself, but a means to an end. To assess a day-ahead market requires stakeholders to understand what end it facilitates and whether it is an end that you want to see.

(c) Agency Review Panel

The first report on compensation has been completed and delivered to the Government. It has not yet been publicly released. The IESO has no information on when it may be released, but the process is continuing on the second part of the Panel's terms of reference regarding co-ordination and overlap. The submissions to the Panel have been confidential. In general terms the IESO has identified the impact the approvals process can have on overall costs in the sector.

(d) Market Rule Amendment – Ramp Rate Multiplier

Background information can be found at: http://www.ieso.ca/imoweb/consult/consult_se17.asp

AMPCO appealed the decision of the OEB to the Divisional Court regarding the scope of the OEB's jurisdiction. The first step in the appeal was AMPCO's application to court seeking a stay of the OEB's decision on the three-times ramp rate pending the outcome of the appeal. The court's decision on the stay application is expected in the third week of June. In response to a question, Mr. Campbell said that as a practical matter while the decision on the stay application is pending it did not make sense to implement the amendment. Mr. Horrobin enquired whether the IESO will move promptly to implement the amendment if the stay is denied. Mr. Campbell said that that the IESO will look to when the right time is to implement the rule; he is not convinced that it would make sense to implement it during a summer heat wave.

(e) Consumer Forum

Background information can be found at: http://www.ieso.ca/imoweb/consult/consult_se42.asp

The IESO has had quite a lot of discussion with different consumers around what would be a useful approach to the consumer forum and there is no particular model that emerges. To more closely engage consumers will require a range of initiatives and mechanisms – from open meetings to targeted outreach initiatives for specific portions of the market – to make efficient use of their time. It is anticipated that the forum will cover a wide range of load and will need to focus on items of direct interest to them. Mr. Dorey said that the meeting feedback obtained needs to be shared more broadly. Mr. Campbell replied that the IESO will share the results of these meetings but will not provide detailed minutes for each meeting.

Agenda Item No. 4: Summer Outlook - Mark Wilson

The most recent 18 month outlook can be found at:
<http://www.ieso.ca/imoweb/monthsYears/monthsAhead.asp>

Mr. Wilson provided an overview of the outlook for the summer and related preparations. In response to a question, Mr. Wilson estimated the emergency load reduction program and emergency demand response program are in the range of 300 MW and 200 to 300 MW

respectively. Based on the current forecast and margins, the IESO does not anticipate needing to implement voltage reductions this summer.

Agenda Item No. 5: SE-35 2008-2010 Business Plan - Peter Sergejewich

The presentation by Mr. Sergejewich can be found at
<http://www.ieso.ca/imoweb/pubs/consult/sac/sac-20070606-Business-Plan.pdf>

Mr. Sergejewich explained that the presentation was directional for the purpose of getting input which will be incorporated into the business planning process. This input will be reflected in the detailed presentation to the Committee on the business plan in August prior to seeking Board approval in September.

Mr. Sergejewich said that though the smart metering MDMR costs were not specifically discussed in the presentation, as the program is not part of the IESO's normal business, it will be referenced in the actual business plan.

Mr. Whyte enquired whether the IESO is under a statutory obligation to intervene on OEB applications for new assets; and whether other ISO's would provide input on market impacts to their regulators. Though the IESO is not subject to a statutory obligation to intervene, the IESO provides advice on reliability impacts and market impact assessments. Mr. Murphy added that most ISOs look at reliability and efficiency of the transmission system. Mr. Campbell also noted that OEB information requests have driven some of this work and that under the existing regulatory structure the IESO intervenes to provide this information.

Mr. Bentz said that there appeared to be two components to the strategic priorities, high level strategic priorities such as reliability, value, markets etc. and then more specific initiatives on the capital projects. Is there a direct linkage between those high level strategic priorities and the capital projects, and is there a specific initiative related to market evolution? Mr. Sergejewich said that the day-ahead market was an initiative related to market evolution. Previous business plans have been structured to link specific capital projects to particular priorities. Mr. Campbell added that there is a role for the business plan to take individual initiatives, put them in a context. As well, he responded that the IESO intended to serve as a voice of the market.

It was confirmed that the business plan discussion of market evolution will reference other work and initiatives of a significant level that the IESO will be working on.

Mr. Hunt of Optimal Technologies suggested that it would be useful for benchmarking initiatives to go beyond cost comparisons and consider technological evolutions which can support greater market efficiencies. Mr. Sergejewich said the IESO will take this into consideration. Mr. Hunt also said that programs should be more focused on integrating demand response into the market rather than just sending a price or timing signal.

In response to Mr. McMillan, Mr. Campbell advised that IESO would look to get the critical input from the SAC meeting in August. The business plan is to be filed with the Minister very shortly after final Board approval in September. Mr. McMillan also questioned why, given the focus in the survey on customers, the mission statement did not refer to customers but the people of Ontario. Mr. Campbell explained that the mission statement was pitched at a high level and that it effectively equates to our broader customers.

It was explained that the \$8 million figure regarding the development of a day-ahead market in 2008 and 2009 is a placeholder which will be updated when the IESO has better information. The \$16.8 million figure reflected what was to be spent in 2007, and the \$11 million figure reflects what would be spent in 2008.

In light of the volume of work associated with the standard offer programs and contracts, infrastructure and interconnection work Mr. McMillan asked if the IESO was staffed appropriately. He also enquired whether the corporate measures would enable one to see the investment made and the benefits gained or processes improved. Mr. Sergejewich replied that the IESO takes this into consideration as part of the business planning cycle. Mr. Murphy noted that many of the smaller projects impact distributors more than transmission.

Mr. McMillan also suggested that it would be useful to expand upon the 600 MW of demand/emergency response given the overall load of 27,000 MW. Mr. Murphy said that in addition to the two programs previously mentioned the IESO also has 700 megawatts of dispatchable load operating in the market along with other initiatives by the OPA.

Mr. Whyte said that sustainable development should be a foundation of the mission statement. All successful North American companies have adopted this and going forward the IESO Board should consider this in the business planning process.

Mr. Anderson of OPG enquired about what additional stakeholdering would be done on the business plan. Mr. Sergejewich responded that consistent with prior practice the IESO would be posting a slide presentation which effectively summarizes the details of the business plan. There is not an intention to have stakeholders wordsmith the detailed wording of the business plan. Mr. Kerr of Coral Energy said that posting the slides was not good enough and he would like to see the actual document itself.

Mr. Kerr also questioned why the IESO is allocating dollars for smart metering when it is not an IESO function. Why would an IESO market participant incur cost associated with something that has nothing do with them? Mr. Campbell responded that the IESO needs to assist in building a robust market that delivers benefits, and ensuring that there are good links between the demand side of the market and the supply side of the market is critical. The smart metering initiative is a remarkable opportunity to better link up the whole market, and we have a responsibility to work with the others who are part of this.

In relation to smart metering Mr. Bentz commented that the IESO had a role, though not necessarily the lead role, in co-ordinating communication activities. Mr. Campbell said that the smart metering initiative is a partnership that must ensure that the Province's investment delivers all of the benefits it possibly can. The Advisory Committee for the Ministry on this program will help to ensure coordination. The industry generally has not yet been doing enough in this area and the IESO is a strong supporter of co-ordinating efforts to ensure that these meters deliver benefits and are not dropped in a vacuum.

Mr. Dorey was supportive of the three principles in the IESO mission statement (price, reliability and environment). He commented that the strategic priorities are broadly consistent with those principles, and the programs and initiatives are consistent with the priorities. He suggested looking at how specific initiatives and priorities address the three principles, identifying the direct benefits to consumers in those three areas. Mr. Bentz said it is a question of how do you operationalize each of those strategic priorities. Mr. Campbell said that these issues are discussed internally and are reflected in the final business planning document which endeavours to demonstrate those links.

Mr. Sergejewich said that while he had not set out all of the linkages in the presentation, in response to a suggestion last year he had provided more detail on the business plan to encourage discussion. He invited further comment through the normal stakeholder engagement channels (via e mail to stakeholder.engagement@ieso.ca)

Agenda Item No. 6: SE-36 Corporate Performance Measures - Martin Hastings

Mr. Hastings' presentation can be found at: <http://www.ieso.ca/imoweb/pubs/consult/sac/sac-20070606-Corporate-Performance-Measures.pdf>

In conjunction with the business planning process, individual performance measures are being developed beneath each of the four general categories identified in Mr. Hastings' presentation. At this point, it would be premature to provide the detailed measures because they will be identified and refined during the business planning process.

In the absence of detailed performance measures and individual weightings, Mr. Horrobin questioned whether the movement of market evolution and operational effectiveness into the customer and stakeholder category represented a dilution of emphasis. Mr. Hastings responded no, it was a move to create a direct link between why we undertake these initiatives and how they provide value. Mr. Horrobin said that it is important that stakeholders have an opportunity to look at the detail of the measures to assess the overall impact.

In response to Mr. Humphries, Mr. Hastings said that the three key elements of the vision (reliability, price and sustainability) will be captured within the actual measures. As an example he suggested the IESO may develop measures within the Customer & Stakeholders perspective that address these key elements.

Mr. Butters of APPrO highlighted the supplier community concern that operational effectiveness and market evolution not be lost and that perhaps there could be an additional category. He also commented that reliability is a given and could, therefore, receive less emphasis in the measures. Mr. Hastings said that the model could be adjusted to increase the number of categories and that he would take the issue back to the senior management team.

Mr. Whyte enquired how an initiative, such as DAM, which had implications for both reliability and for customer impacts, would be characterized. Mr. Hastings confirmed that it is a judgment call and that a larger project such as DAM may well have more than one measure. There might be measures that exist specifically to address some of the stakeholder concerns and as well as measures that would address the desired outcomes from a reliability perspective.

Mr. Whyte also questioned whether operational effectiveness, given that it applies to everything, should be a separate category. Mr. Sergejewich responded that the operational measures were drawn from last year's performance measures. They generally relate to the level of service that we are providing to you and the IESO is proposing that they should be more closely linked to customer service as opposed to operational effectiveness.

Mr. Dorey commented that it was a positive change to assess market evolution initiatives on how they serve the interests of customers and stakeholders, rather than an end in themselves.

In response to a question from Mr. Anderson of OPG it was confirmed that the corporate performance measures will be posted two weeks in advance of the next Committee meeting with the intent that stakeholders look at it and comment on specific measures. To the extent practical the IESO will respond to comments prior to the August 22nd meeting.

Mr. Hastings, in response to Mr. Kerr of Coral, confirmed that the IESO does not anticipate wholesale changes to its performance measures. It is expected that many of the current measures will continue to be used. The IESO will review individual measures and assess whether they are really driving performance. Mr. Kerr emphasized that it is important to inform participants of the proposed measures in order to solicit their input.

Mr. Whyte commented that performance measures were done very well this year, that it was a marked improvement from last year, and that he was grateful that the IESO took their suggestions to incorporate an employee related perspective seriously. He also said that the idea of a stand-alone reliability measure, separated from the stakeholder measure, was appropriate because perception and reality too often in this province have been mixed up. He congratulated the IESO staff on the project.

Mr. McMillan said that from the marketer/broker perspective he is concerned about a loss of emphasis on market evolution; he would like to see market evolution reinforced in individual

performance measures. He applauded the focus on the “workforce” but suggested characterizing it as “people”.

In summary Mr. Bentz said the general theme is that the prominence of the market evolution issue needs to be looked at and consideration given to whether it is a separate category.

New Business

Mr. Horrobin said that the generator community would like the opportunity to have further discussion around the proposed changes to potential financial penalties for breaches of the market rules. In particular there is concern regarding the treatment of breach history. We want to ensure that we fully understand the rationale for the proposed changes, and that our concerns have been heard and dispositioned in some way. Mr. Campbell undertook to speak with Mr. Chandler regarding this concern.

In closing it was noted that Professor Michael Trebilcock would be making a presentation on cost/benefit analyses at tomorrow’s Market Pricing Working Group meeting.

Wrap Up

The meeting was adjourned and members were reminded that the next meeting is on August 22nd.