

**IESO Stakeholder Advisory
Committee**

TO: IESO BOARD OF DIRECTORS

DATE: June 28, 2007

FROM: STAKEHOLDER ADVISORY COMMITTEE

SUBJECT: BRIEFING NOTE

The purpose of this memorandum is to update the IESO Board of Directors on the June 6th Stakeholder Advisory Committee meeting. With three 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 Summer 2007 Reliability Outlook, the IESO 2008-2010 Business Plan and 2008-2010 Corporate Performance Measures.

Discussion Highlights: Action Items from April 4th SAC Meeting

1. Mr. Campbell advised that the IESO is investigating expanding the Customer Survey to include Embedded customers for the 2007 Survey.
2. In response to a request to establish a benchmark associated with Stakeholder Engagement and Rule-Making, Mr. Campbell advised that initial discussions with other ISO's indicated limited survey work had been completed in this area. Mr. Dorey stated that his focus was to look at the rule-making process in other jurisdictions, consider how other ISO's collect stakeholder input, identify what their responsibilities are relative to other agencies and what appeal mechanisms exist. Mr. Campbell could not commit to a formal review in this area without first considering the resource requirements for a full and formal review and the associated business planning implications.
3. Mr. McMillan questioned why it appeared that the IESO is linking consideration of natural hedges in the Transmission Rights market with the Day-Ahead market (DAM). Mr. Campbell advised that the IESO is looking at net credit in real-time markets but if one were to look at broader changes they should be considered in relation to other potential changes such as DAM.
4. Mr. Campbell advised that the process to post responses to the Market Surveillance Panel reports and to track those items has been implemented and the IESO is now working through prior reports.

Discussion Highlights: Day-Ahead Market

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The IESO will now bring forward the plan proposals in August to permit more time for Stakeholder input. IESO Management recommendations will 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 and that the main objective is to listen and understand stakeholders' point of view. Mr. McMillan commented that it would be useful to obtain the Government's view of DAM given the implementation of real-time demand and time-of-use meters. Mr. Campbell said the Government is aware of this stakeholder initiative.

Mr. Whyte indicated that his comments relative to DAM were dependent upon the specific design features as there are certain designs 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 solid understanding of stakeholders' requirements; the actual proposal would then be developed and circulated for comment at the August SAC meeting. Mr. Humphries added that DAM is not an end in itself but the means to an end.

Discussion Highlights: Agency Review Panel

The Compensation Report has been completed and delivered to the Government but it has not been publicly released. Work is continuing on the second part of the Panel's terms of reference regarding agency coordination and overlap. In general terms the IESO has identified the impact that the approvals process can have on overall costs in the sector.

Discussion Highlights: Market Rule Amendment – Ramp Rate Multiplier

The Divisional court ruling on AMPCO's application seeking a stay of the OEB decision on the 3x ramp rate change pending the outcome of the AMPCO appeal is expected in the third week of June. Mr. Campbell stated that as a practical matter while the decision on the stay application is pending it did not make sense to implement the amendment.

Discussion Highlights: Consumers' Forum

The IESO has had extensive discussions with different consumer groups as to the most effective forum and no particular model has emerged. What is clear is that to successfully engage consumers will require a range of initiatives and mechanisms. Mr. Dorey said that the meeting feedback from these sessions needs to be shared more broadly. Mr. Campbell responded that the IESO will share the results of these meetings but will not provide detailed minutes.

Discussion Highlights: Summer 2007 Outlook

Mr. Wilson provided an overview of the summer outlook and related preparations. In response to a question Mr. Wilson estimated the Emergency Load Response Program and the Demand Response program deliverables as being in the range of 300 MW's and 200-300 MW's respectively.

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Discussion Highlights: 2008-2010 Business Plan

Mr. Sergejewich explained that the presentation was directional for the purpose of obtaining input to the business planning process. This input will be reflected in the detailed presentation to the SAC Committee on the Business Plan in August prior to seeking IESO Board approval in September. Mr. Sergejewich indicated that MDM/R costs will be referenced in the Business Plan.

Mr. Whyte enquired if the IESO is under a statutory obligation to intervene on OEB applications for new assets and whether other ISO's provide input on the associated market impacts. In response it was indicated that while the IESO is not subject to a statutory obligation to intervene, the IESO provides advice on reliability impacts and market impact assessments, as do most other ISO's.

Mr. Bentz said that there appeared to be two components to the strategic priorities: high level priorities such as reliability, value, markets and then more specific initiatives on capital projects. Mr. Bentz asked if there is a direct linkage between the two and is there a specific initiative related to market evolution. Mr. Sergejewich responded that DAM is an initiative related to market evolution and that previous business plans have linked specific capital projects to particular priorities. Further, it was confirmed that the business plan discussion of market evolution will reference other significant initiatives that the IESO will be working on.

Mr. Hunt suggested that it would be useful for benchmarking initiatives to go beyond cost comparison and consider technological evolutions, which can support greater market efficiencies. Mr. Sergejewich indicated that the IESO will take this into consideration.

In response to a question from Mr. McMillan, Mr. Campbell advised that the IESO was planning to obtain the critical Business Plan input from the SAC Committee at the August meeting. There is little time between the final IESO Board approval (3rd week of September) and the filing with the Minister of Energy to permit further consultation.

It was explained that the \$ 8M DAM figure for development of a Day-Ahead Market in 2008-2009 was a placeholder pending development of a more accurate estimate. The \$ 16.8M figure reflected 2007 estimated spending and the \$ 11M figure represents the 2008 forecast.

Considering the workload associated with standard offer programs & contracts, infrastructure and interconnection work, Mr. McMillan questioned the adequacy of IESO staffing. He also asked if the corporate performance measures would enable one to compare the investments made and the benefits gained or processes improved. Mr.

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Sergejewich replied that the IESO takes this into consideration as part of the business planning cycle. Mr. McMillan also suggested that it would be useful to expand upon the 600 MW's of ELRP/DR given the total system load. Mr. Murphy responded that the IESO also has 700 MW's of dispatchable load operating in the market along with other OPA initiatives.

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

Mr. Anderson enquired about additional business plan stakeholdering. Mr. Sergejewich indicated that the IESO would be posting a slide presentation which summarises the business plan. Mr. Kerr challenged the presentation as being insufficient. Mr. Kerr also questioned why the IESO is allocating funds for SMART Metering. Mr. Campbell responded that the IESO needs to assist in building a robust market that delivers benefit, and ensuring that there are good linkages between the demand and supply side of the markets is critical to this process. Mr. Bentz commented that the IESO has a role, although not the lead role, in coordinating 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 industry generally has not been doing enough in this area and the IESO is a strong supporter of coordinating efforts to ensure that these meters deliver the promised benefits.

Mr. Dorey was supportive of the three principles of the IESO Mission statement (price, reliability, environment). He commented that the strategic priorities are broadly consistent with those principles and that the programs and initiatives are consistent with the priorities. He suggested looking at how the initiatives and priorities address the three principles and identifying the benefits to consumers. Mr. Bentz said it is a question of how do you operationalise each of those strategic priorities. Mr. Sergejewich invited more comment through the stakeholder engagement channels.

Discussion Highlights: Corporate Performance Measures

In conjunction with the business planning process individual performance measures are being developed for each of the four general categories identified in Mr. Hastings' presentation. At this point it is premature to provide the detailed measures as they will be developed and refined during the business planning process. In the absence of detailed measures Mr. Horrobin questioned if the movement of market evolution and operational effectiveness into the customer & stakeholder category represented a dilution of emphasis. Mr. Hastings responded that this was not the case and that the change was made to directly link why these initiatives are undertaken with the value they create. Mr. Horrobin commented that it is important for stakeholders to review the detailed measures to assess their overall impact.

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In response to Mr. Humphries, Mr. Hastings indicated that the three key elements of the vision will be captured within actual measures and that the IESO may develop measures within the Customer & Stakeholder category to address the key elements. Mr. Butters highlighted the concern of the supplier community that operational effectiveness and market evolution not be lost and suggested that there could be an additional category. Mr. Hastings responded that the number of categories in the model could be adjusted and that he would take the issue back to the IESO Senior Management team.

Mr. Whyte enquired how a large initiative like DAM, which affects both reliability and customers, would be categorised. Mr. Hastings responded that it is a judgment call and that there might be more than one measure for a project of this scale. Mr. Whyte also questioned if operational effectiveness, which applies to everything, should have a separate category. Mr. Sergejewich responded that the operational measures were drawn from last year's performance measures and that they generally relate to the level of service provision. The IESO is proposing that they be more closely linked to customer service.

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

In response to a question from Mr. Anderson it was confirmed that the corporate performance measures will be posted two weeks in advance of the next SAC meeting for comment by stakeholders. To the extent practical the IESO will respond to comments at the ensuing SAC meeting. In response to a question from Mr. Kerr, Mr. Hastings confirmed that the IESO does not expect large scale changes to its performance measures and that many of the current measures will continue to be used.

Mr. Whyte commented that this year's performance measures are a marked improvement over the previous year and he was grateful that the IESO took the suggestion to incorporate an employee related perspective seriously. He also stated that a standalone reliability measure, separated from the stakeholder measure, was appropriate. He congratulated IESO staff on the project.

Mr. McMillan commented 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. In summary, Mr. Bentz said the general theme is that the prominence of the market evolution issue needs to be further assessed and consideration given to whether it should be separate category.

Discussion Highlights: New Business

Mr. Horrobin indicated that the Generator community would like to have further discussion regarding the proposed changes to the potential financial penalties for

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market rule breaches. In particular, there is a concern regarding the treatment of breach history. Mr. Campbell undertook to speak with Mr. Chandler regarding this concern.

Subsequent to this discussion the IESO hosted a webcast on June 15th to provide an opportunity for further elaboration and input on this issue. SAC members were invited to participate to the extent to which their schedules would permit.