


2008 – 2010 Business Plan

Stakeholder Advisory Committee (SAC)
August 22, 2007



- Walk through, at a high level, 2008-2010 Business Plan goals and preliminary financial projections:
 - highlight our priorities and key initiatives within the plan.
 - outline the preliminary financial outlook for the IESO
- Solicit feedback from SAC on the IESO's key areas of focus and fiscal outlook for 2008-2010

- SAC Consultation – SEP Apr 4/07
- SAC Consultation – Initiatives Jun 6/07
- **SAC Consultation – Overview Aug 22/07** 
- Board of Directors Review/Approval Sept 7&25/07
- File Plan with Minister of Energy by Oct 2/07

VISION: A vibrant Ontario economy supported by a reliable and competitive electricity market.

MISSION: To act in the interests of the people of Ontario to enable reliable, competitively-priced and sustainable electricity service.

- Delivering reliable electricity supply on demand
- Providing value in all our services and products
- Developing Ontario's electricity market through evolution of the IESO-administered markets
- Responding to the needs and concerns of our stakeholders
- Earning the trust of all stakeholders as a just administrator and capable advisor

- Directed the operation, and maintained the reliability, of Ontario's power system, 24-hours-a-day, 7-days-a-week.
- Operated and settled Ontario's \$10 billion wholesale electricity market.
- Reduced IESO usage fee by over 10% to \$0.815 per MWh and refunded \$12.7 million, resulting in projected 2007 customer savings of over \$27 million.
- Responded to stakeholder requirements for well researched and forward looking analyses of policies and market alternatives.

- Relocated IESO back-up control centre to a more secure location, addressing current and assessed future security environment status.
- Identified by NERC in a Reliability Readiness Audit for consideration of examples of excellence in the following:
 - Training: IESO's Co-op Student program demonstrates "foresight" and recommended for consideration as an example of excellence.
 - Planning: *Ontario Reliability Outlook* and *18-Month Outlook* are "model documents for presenting reliability assessments".
 - Planning: Gas-Electric Interdependency assessment demonstrates leadership that is "an example to the rest of the industry".

- Released inaugural edition of the *Ontario Market Outlook*, assessing the state of Ontario's electricity market and identifying future opportunities.
- Addressed IESO market design issues, including prudential support rules and ramp rate.
- Managed the provision and implementation of Ontario's Smart Meter Data Management and Repository (MDM/R). Recently appointed as Smart Metering Entity.

- Articulate how we intend to fulfill our role & mandate:
 - Communicates IESO's objectives and priorities
 - Identifies opportunities and challenges over plan period
 - Is a required submission to the Minister of Energy
 - Serves as support to the IESO's fee submission to the Ontario Energy Board
 - Provides view of estimated IESO resource requirements over next three years
 - Establishes approved budgets for next year

Consistent with our strategic priorities, we will:

- Deliver on our responsibilities of managing power system reliability and administering the wholesale electricity market.
- As the Smart Metering Entity, continue to facilitate the government's Smart Metering Initiative.
- Continue to work with our stakeholders to address their issues and concerns.
- Propose a usage fee in 2008 of \$0.79 per MWh, resulting in projected 2008 customer savings of over \$4 million.

- Target a usage fee in 2009 of \$0.745, which would result in total projected customer savings of almost \$23 million in 2009 and 2010.
- Manage talent to address concerns about potential future shortages of skilled workers, while not increasing staff levels.
- Develop a day-ahead market proposal and business case in 2008, with projected implementation for 2009.
- Encourage the competitiveness of the market by following a step-by-step approach to market evolution to improve efficiency and to improve how the market facilitates the business of our stakeholders.

- Develop a Consumers' Forum, providing an opportunity for electricity consumers to identify and provide their input on key issues, initiatives and operational decisions.
- Review Stakeholdering process as part of commitment to continuous improvement.
- Champion Ontario's interests before NERC and U.S. regulators.
- Partner with the Ministry of Energy and LDC's to develop smart metering communications to support the roll-out of time-of-use pricing.

The IESO's Financial Objective

- To demonstrate continued prudent financial management while achieving our objects as outlined in legislation.

The following information is based on preliminary financial projections associated with the IESO usage fee for managing the wholesale electricity market. *The following preliminary financial projections do not include information relating to the Smart Metering Entity.*

If revisions are required, the updated financial information will be provided at the August 22nd Stakeholder Advisory Committee meeting.

For 2007, the IESO is projecting a modest operating surplus of \$0.8 million

- Revenues are lower than expected – lower than assumed energy levels; and
- Total costs are below budget – reduced amortization as a result of successful capital asset management allowing for some service life extensions; OM&A program costs lower across the business; partially offset by pension and other post employment benefit expenses being higher than budget as a result of lower long-term interest rates.

For 2008, the IESO is forecasting results that are largely consistent with the 2008 outlook included in last year's plan:

- A usage fee of \$0.79/MWh, a reduction of over three percent;
- Total costs that are expected to be two percent lower than in 2007;
- A capital spending level of \$20 million; and
- Regular staff level of 422, consistent with the current year.

Looking beyond 2008, the IESO forecasts further fee reductions, to \$0.745/MWh in 2009, although there continue to be some large uncertainties (energy levels, long-term interest rates).

2007 Comparison to Budget

(\$MILLIONS)	2007 Projection	2007 Budget	Variance
Revenues			
IESO Fees	131.2	133.4	(2.2)
Cost Recovery Fees	2.0	2.0	0.0
Market-related Interest Income	4.2	4.6	(0.4)
Total Revenues	137.4	140.0	(2.6)
Costs			
OM&A	87.6	89.4	1.8
OM&A Pension Expense	17.1	13.8	(3.3)
Amortization	28.0	32.9	4.9
Interest	3.9	3.9	0.0
Total Operating Costs	136.6	140.0	3.4
Operating Surplus prior to rebates	0.8	0.0	0.8
Rebates to market participants	(0.8)	0.0	(0.8)
Operating Surplus for the period	0.0	0.0	0.8

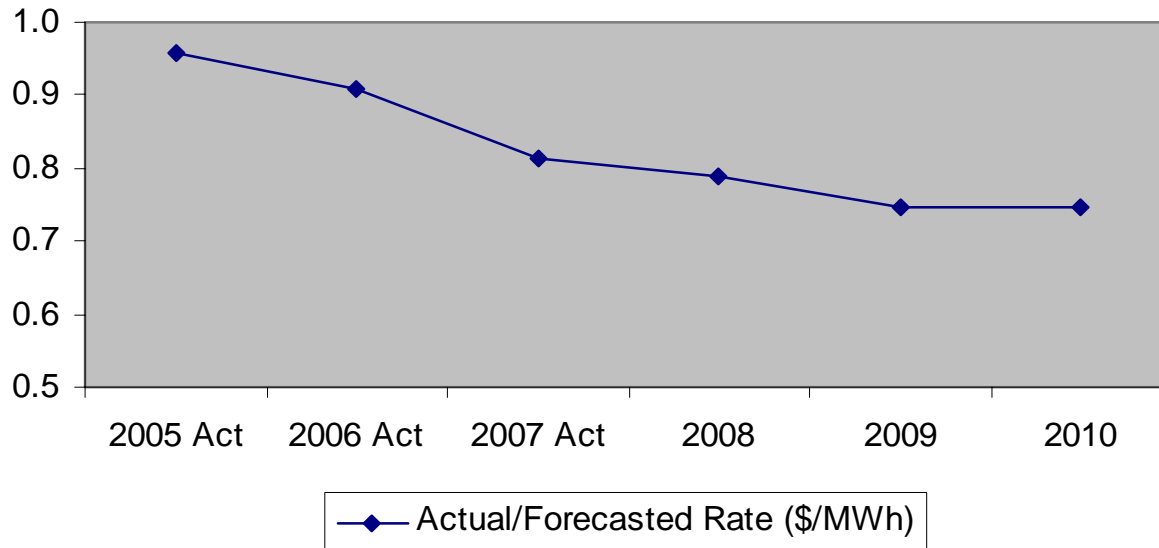
The projected operating surplus prior to rebates of \$0.8 million is mainly attributable to:

- lower amortization costs resulting from changes to services lives of some assets to reflect success in extending planned services lives of some assets
- OM&A costs lower across the business relative to budget

Offset by;

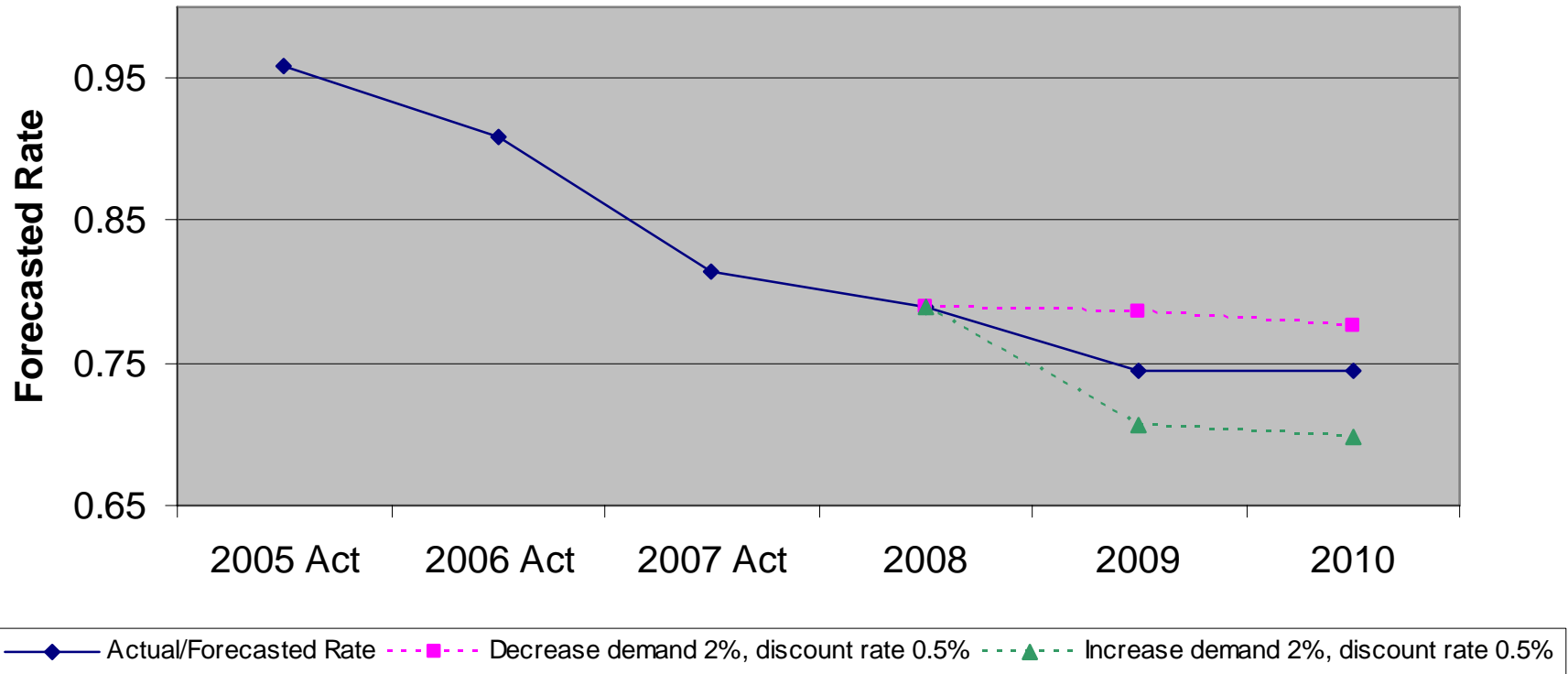
- lower planned revenues resulting from lower Ontario demand
- higher pension and other post employment benefit costs due to reduced long-term interest rates

Actual/Forecasted Rate (\$/MWh)

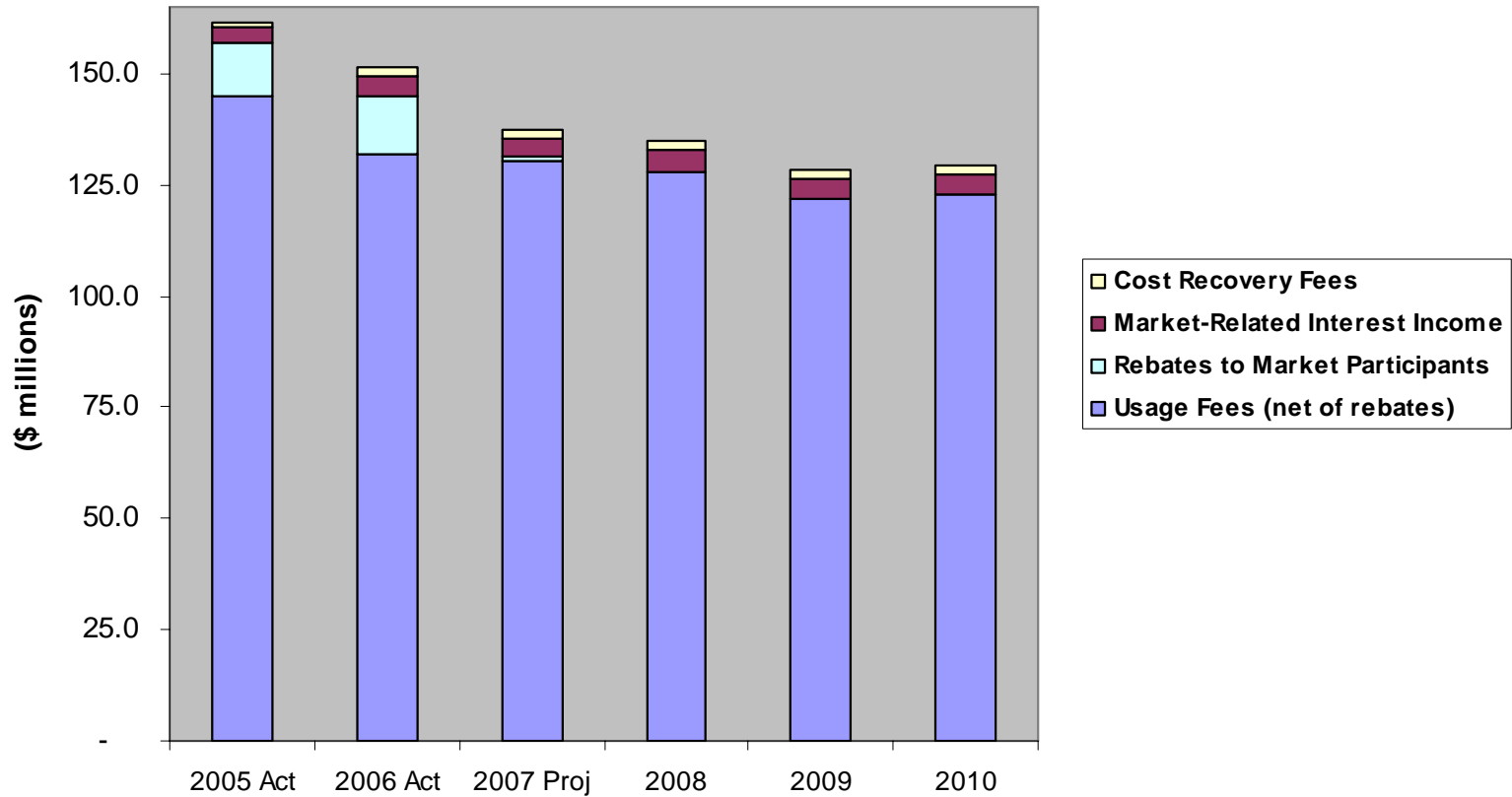


	2005 Act	2006 Act	2007 Act	2008	2009	2010
Actual/Forecasted Rate (\$/MWh)	0.959	0.909	0.815	0.790	0.745	0.745

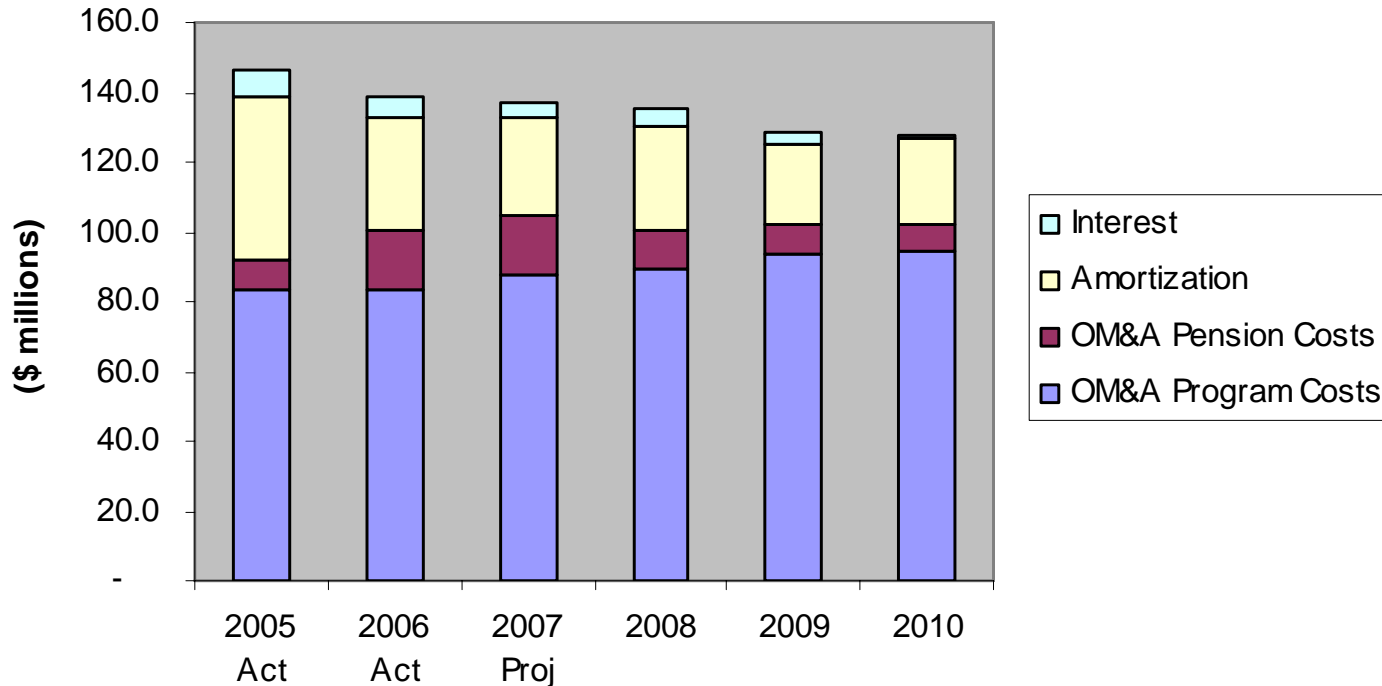
Forecasted Effective Rate (\$/MWh)



Forecasted Rate (\$/MWh) \ Planning Year	2005 Act	2006 Act	2007 Act	2008	2009	2010
Actual/Forecasted Rate	0.959	0.909	0.815	0.790	0.745	0.745
Decrease demand 2%, discount rate 0.5%					0.786	0.776
Increase demand 2%, discount rate 0.5%					0.707	0.698

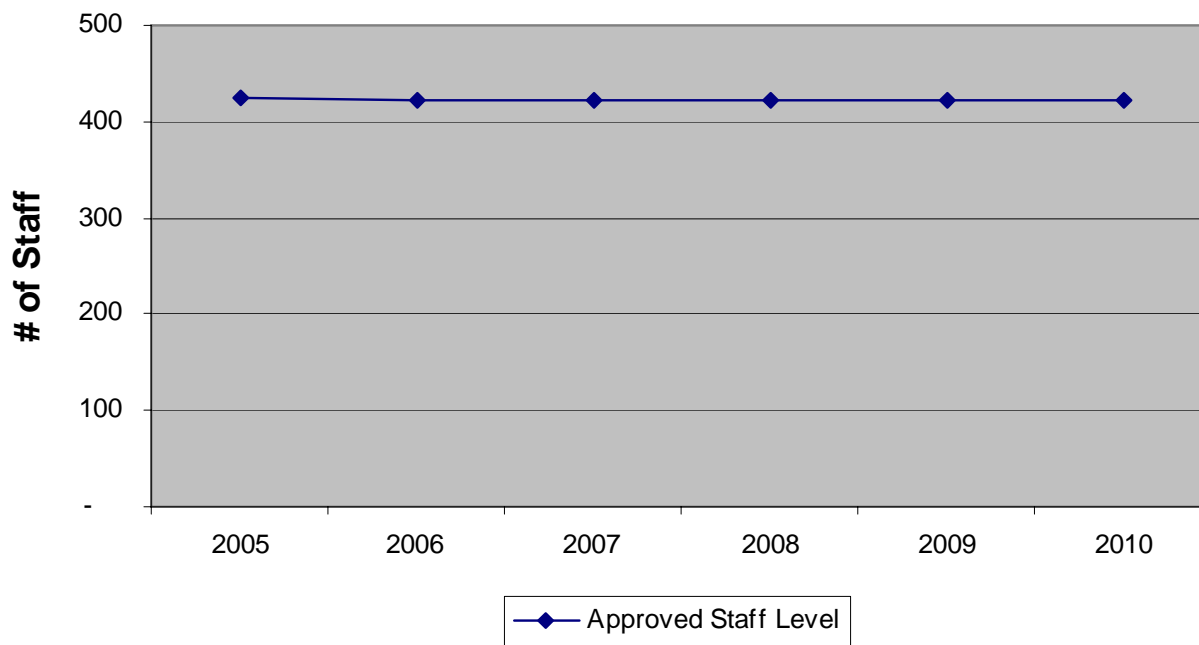


	2005 Act	2006 Act	2007 Proj	2008 Bud	2009 Plan	2010 Plan
Usage Fees (net of rebates)	145.0	132.0	130.4	128.0	121.7	122.7
Rebates to Market Participants	11.9	12.7	0.8	-	-	-
Market-Related Interest Income	3.5	4.9	4.2	5.0	4.6	4.6
Cost Recovery Fees	0.9	2.1	2.0	2.0	2.0	2.0
Total Revenues	161.3	151.7	137.4	135.0	128.3	129.3



(\$millions)	2005 Act	2006 Act	2007 Proj	2008 Bud	2009 Plan	2010 Plan
OM&A Program Costs	83.3	83.1	87.6	89.4	93.4	94.6
OM&A Pension Costs	8.3	17.3	17.1	11.3	9.0	7.3
Amortization	47.4	32.4	28.0	29.3	23.1	24.5
Interest	7.6	6.2	3.9	5.0	2.8	1.4
Total Expenses	146.6	139.0	136.6	135.0	128.3	127.8

Staff Level



	2005 Act.	2006 Act.	2007 Act.	2008 Bud.	2009 Plan	2010 Plan
Approved Regular Staff	424	422	422	422	422	422

(\$ millions)	2007 Projected	2008 Budget	2009 Plan	2010 Plan
Day-Ahead Market	-	8.0	8.0	-
Energy Management System/ Market Information System Upgrade	3.3	1.1	-	-
UNIX Server Infrastructure Refresh	1.8	0.5	-	-
Windows Refresh Program Stage 4 & 5	1.8	0.9	-	-
Participant Life Cycle Replacement	-	1.0	0.5	-
Backup Operating Centre Relocation	1.0	-	-	-
Network Zoning Project	-	0.8	-	-
Facility Outage Management System	0.3	0.7		
On-Line Limits Derivation	0.2	0.5	1.0	1.0
NERC - Critical Infrastructure Protection	-	0.2	0.2	-
Other Capital Initiatives	3.4	6.3	10.3	19.0
Total Capital	11.8	20.0	20.0	20.0

2008 – Preliminary Comparison to Last Year's Plan

(\$Millions)	Preliminary 2008 Budget in the 2008-2010 Business Plan	2008 Forecast in Last Year's Business Plan	Variance
Total Revenues	135.0	137.2	(2.2)
Total Costs	135.0	137.2	2.2
Operating Surplus for the period	-	-	-
Usage Fee (\$/MWh)	0.790	0.790	-

- Revenues are lower in the current business plan due to lower domestic demand
- Total costs are lower principally as a result of OM&A program cost savings

We plan to:

- Deliver on our core responsibility of managing Ontario's power system.
- As the Smart Metering Entity, facilitate the government's Smart Metering Initiative.
- Continue to work with our stakeholders to address their issues and concerns.
- Develop and Implement a day-ahead market.
- Partner with the Ministry and LDC's on smart metering communications.
- Reduce our usage fee in 2008 to \$0.79 per MWh and forecast a further reduction to \$0.745 for 2009.
- Manage staff around our current level of 422, while maintaining core competencies.

Send feedback to :

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