

IESO Stakeholder Advisory Committee
Minutes of Meeting
August 20, 2008, 9:00 am
Toronto Congress Centre

Advisory Committee Members in Attendance:

Mr. Brian Bentz, Chair (representing Distributors)
Mr. Bruce Campbell (representing IESO)
Mr. Steve Dorey (representing Transmitters)
Ms. Julie Girvan (representing Residential Consumers)
Mr. Richard Horrobin (representing Generators)
Mr. Mike Humphries (representing Embedded Industrial Consumers)
Mr. Paul McMillan (representing Marketers/Brokers)
Mr. Doug Reeves (representing Distributors)
Mr. Adam White (representing Wholesale Consumer Market Participants)
Mr. Daniel Whyte (representing Generators)
Mr. Gary Wight (representing Marketers/Brokers)
Mr. John Witjes (representing Public Service Consumers)

Advisory Committee Members Absent:

Mr. Bruce Lourie (representing Environmental) - Resigned
Mr. Chuck Stradling (representing Commercial Consumers)

Presenters:

Mr. Don Tench
Mr. Neil Campbell
Mr. Ken Kozlik
Mr. Peter Sergejewich
Mr. Brian Rivard

IESO Board Members in Attendance:

Ms. Roberta Brown
Mr. Dave Cassivi
Mr. Robert Chiarelli
Mr. James Hinds
Mr. Paul Murphy
Mr. Rudy Riedl
Mr. Howard Shearer
Mr. John Wiersma

Introduction – Brian Bentz

Mr. Bentz welcomed everyone and called the meeting to order. He acknowledged the attendance of the Board of Directors, thanking them for their attendance. He also acknowledged the contribution of Ms. Elizabeth Morris, who has recently moved from stakeholder engagement to wholesale settlement metering, to the success of the Committee.

Agenda Item No. 2: Senior Management update – Bruce Campbell

(a) Review of Action Items from June 4, 2008 Stakeholder Advisory Committee meeting

The only action item was a request that the Committee to send a letter to the Minister of Energy, enquiring about the release of the discussion paper on load serving entities. Mr. Bentz said that at a Committee pre-meeting, it was decided that this request would not be made. The broader questions of messaging and role of the Committee with respect to these types of issues need to be examined going forward.

The action items list can be found at:

http://www.ieso.ca/imoweb/pubs/consult/sac/sac-20080820-Item1_ActionItems.pdf

(b) Day-Ahead Price Forecast

Mr. Campbell noted that the IESO is looking for a better way to explain the statistics because the note creates an impression of a more significant difference from actual to the forecast than there really is. This will be corrected in the next update on this item.

The briefing note on this can be found at: http://www.ieso.ca/imoweb/pubs/consult/sac/sac-20080820-Item1_DAPF.pdf

(c) Meter Data Management & Repository (MDMR) and Time of Use

In addition to the reporting note, Mr. Campbell said that there is a small working group of local distribution companies (LDCs) that are working to define the arrangements that will be in place while the MDMR is being implemented. This group will report back in September to the larger LDC group.

Ms. Girvan asked how the responsibility of time-of-use pricing would be worked out between the OEB and the IESO. Mr. Campbell stated that time-of-use pricing is outside of the jurisdiction of the IESO.

Mr. Horrobin asked for an update on the communication campaign. Mr. Campbell said that the IESO has been working and will continue to work with LDCs and the Ministry of Energy to develop and test a base communications package that can be used by all LDCs. This will facilitate consistent messaging across the province and provide base materials in a cost effective

manner – particularly significant for smaller LDCs - which may be used as or incorporated into their customer communications packages.

Mr. Bentz questioned whether the IESO had a position with respect to LDCs having back up MDMRs. Mr. Campbell stated that the regulations state that information used for billing is done through the centralized MDMR system. If an LDC believes that the information that it collects is valuable for other information purposes, then they can invest in a back-up system and include it in their proposal to the OEB.

Mr. Reeves asked how the information collected in the MDMR would be relayed back to the customer. Mr. Campbell responded that the face that the customer will always see in looking for the information will be their LDC and that the mechanism used to get this information to the customer will be chosen by the LDC.

The briefing note can be found at: http://www.ieso.ca/imoweb/pubs/consult/sac/sac-20080820-Item1_SAC-Smart_Metering-RPG.pdf

(d) Smart Grid Initiative

Mr. Campbell indicated that a report on this initiative will be available early in the New Year.

Mr. Dorey asked if this initiative is looking at the transmission system, self-healing grids and making the entire North American market more robust in terms of reliability. Mr. Murphy responded that much of the transmission system is already self-healing, but that is not the case at the distribution level. At the transmission level it can be extended further through smarter intelligence and communications so that it becomes almost self restorative in broader contingency conditions. Self-healing, particularly at the distribution level, is seen as a benefit of the smart grid.

Agenda Item No. 3: Day-ahead Electricity Mechanisms

Mr. Tench presented an update of activities since the presentation at the June 4th meeting on the next steps on the day-ahead mechanisms. He outlined the three areas of differing views that were identified at the last meeting that required further study. These items were (1) the equal weighting of benefits that were applied to all three options, (2) whether different, non-quantifiable benefits should be attributed to UDAM, and (3) the value of the IESO running an energy forward market.

Mr. Tench's presentation can be found at: http://www.ieso.ca/imoweb/pubs/consult/sac/sac-20080820-DAM_Presentation.pdf

Mr. Bentz asked if proceeding with a parallel decision making process on the energy forward would compromise the decision about the DAM option. Mr. Tench acknowledged that if option 3 were selected one would not need an energy forward market but noted that the process and analysis has progress to the point where it is leading to Option 2 and given that, the energy forward market can proceed on a separate timeline.

Mr. Witjes questioned whether based on the analysis and preliminary work the costs identified for the options would be changing. Mr. Tench stated that the IESO has not re-costed the design, the costs identified to date are based on a fairly high-level design and there are no changes to those costs at this time.

Mr. McMillan asked when more information on the design of the energy forward market would be presented to the Committee. Mr. Tench responded that a more substantial discussion would occur at the October stakeholder advisory meeting. Mr. McMillan enquired whether the IESO would be the clearing house for the energy forward market. Mr. Tench stated that stakeholders have indicated that there are other organizations that could perform this service as well or better than the IESO so that is the route that is being assessed.

Mr. Wight commented that Ontario is not an island and imports and exports should be an integral part of the design. LMP is not a "bad" option. His sector does not agree with some of the conclusions put forth and with going forward on option 2; option 3 is seen as the better solution by his sector. He also noted that the IESO should be spending its time on price formation issues in real-time but if Option 2 goes forward, then the design should include uplift avoidance, physical bilaterals and prudentials, and imports and exports, which has yet to be seen. Mr. Campbell responded that these comments have been heard by the IESO but the analysis does not show how a UDAM could produced the benefits attributed to day-ahead markets that are operating in other jurisdictions. Mr. Tench added that a number of real-time pricing issues need to be addressed. These issues have been brought forward at the market pricing working group, by the MSP and through the evaluation of DAM. There is a need and opportunity to look at and consolidate some of these issues.

Mr. Horrobin asked about the IESO's views as to how the market can progress and what is a future end state. Mr. Tench stated that the IESO would like to have a discussion with the Committee around pricing issues, as well as the priority of these issues and the other issues that are being worked on. Mr. Campbell followed up that the first priority would be to have a commitment to implement the common elements, address the energy forward market and then resources could be allocated to the range of price formation issues that need to be addressed in a step-wise and efficient fashion.

Mr. Whyte commented that without a broad consensus on which option is appropriate, proceeding with study of the common elements is an intelligent strategy. He commented that care must be taken in public communications so that it is not perceived as lobbying against option 3.

Mr. Campbell responded that the additional work that has been completed has led to the conclusion that work should proceed with implementation of the common elements - and stakeholders should be aware that this conclusion has been reached. The UDAM does not provide a platform on which to build from; it is a better use of time, resources and intellectual effort to work on underlying pricing issues that are behind the debate over these options.

Mr. Bentz opened up the discussion to accept comments from other stakeholders in attendance.

Mr. Cary on behalf of Sithe expressed concern that sufficient resources are actually allocated to address these pricing issues over the coming year while addressing fundamental dispatch issues in parallel. He noted that there is little tangible benefit associated with the energy forward market design and he would not like to see it expanded and take away resources from other long-term projects. He also noted that the design being put forth for the day-ahead mechanism does not encourage or support exports notwithstanding his understanding that exports were to be included in a more substantive fashion.

Mr. Bell of OPG stated that the market pricing working group is currently discussing locational marginal pricing at the interties. The discussion today suggests that a broader alternative pricing scheme for Ontario will be looked at. It may be prudent to put the investigation of locational marginal pricing at the interties on hold until the assessment of the possibility of an alternative pricing scheme in Ontario is completed. Mr. Campbell said that the IESO was not opening every issue at the same time, but wanted to approach the price formation issues in a step-wise, logical fashion.

Mr. Bentz then asked each Committee member for their input since a decision will be made shortly.

Mr. Adam White (wholesale market participants) agreed with Mr. D. Whyte that proceeding with the common elements is an intelligent strategy but to be careful with the wording. The IESO has a tendency to be defensive of its options and, given the detailed review that has been undertaken, it need not be defensive. Be careful with the language because the decision is to proceed with the common elements, not to disregard option 3.

Mr. McMillan (markers/traders) stated that his constituents cannot support the movement towards Option 2 and that there is a need to be careful about what is being done for the future. He does not see option 2 as providing the security that will be needed for the gas generators that will be coming on line in the future and responding to the same price signal at the same time. It is only then that we will see the exact impact. It needs to be financially binding. He also said he does not see how exports will fit into option 2. The design of the energy forward market is not yet known but for it to be successful, consumers have to be exposed to price and right now not many are. In summary, the trader community does not support option 2 but can agree to disagree. There has been a healthy debate around this initiative and we appreciate the opportunity to have that kind of dialogue.

Ms. Girvan (residential consumers) stated that her views have not changed about proceeding with the day-ahead commitment, option 2.

Mr. Horrobin (generators) stated that although the solution presented is not the ideal solution proceeding with option 2 is an intelligent strategy. This is not an end state and further improvements are required on pricing. He would also like to see a good plan for progressing with some of the other pricing initiatives as soon as possible.

Mr. Witjes (public service consumers) stated that his constituents' position has not changed and they are still supportive of option 2 with some more information on the energy forward market in October.

Mr. Reeves (distributors) supports the two-part implementation of option 2, the first part being the implementation of the common elements and the second part being the continuing work on the design of a suitable energy forward market.

Mr. Humphries (embedded industrial consumers) supports proceeding with option 2 and the common elements as it is critical to the future. It was also stated that there is a concern about the expenditure of time, money and intellectual capital on the UDAM approach if it's not consistent with the future.

Mr. Dorey (transmitters) supports option 2 and would like to see at the next meeting, if possible, the list of near-term price formation issues. He cautioned the Committee about a rehash of option 5 being a misuse of time and energy.

Mr. Wight (traders/marketers) supports option 3.

Mr. Whyte (generators) commented on the hard work of the IESO staff over the summer and their expectation that this work will continue in the fall studying the common elements.

Mr. Bentz (distributors) supports option 2 and commented that work can be done to improve the efficiency and potentially future liquidity of the market.

Agenda Item No. 4: Market Surveillance Panel Monitoring Report (November 2007-April 2008)

Mr. Neil Campbell presented the Market Surveillance Panel Report and discussed their findings, recommendations, and future work. Mr. Campbell's presentation can be found at: http://www.ieso.ca/imoweb/pubs/consult/sac/sac-20080808-Item2_SAC_Briefing_MSP_Report_Nov07-Apr08.pdf

Mr. McMillan commented that the May activity regarding linked wheels was not unusual given the market circumstances that day including a New York run at the margin in gas and available opportunities.

Mr. Whyte stated that the US senate and the House of Representatives will be holding hearings on the linked wheel issues and asked if the New York ISO or FERC has asked the IESO to take any action on the linked wheel issue. Mr. N. Campbell responded that the Panel has had general discussions with U.S counterparts but do not have the authority to exchange confidential information. Mr. B. Campbell responded that the IESO has not been asked by any parties to do anything on this issue and that this activity did not impose any particular stress on Ontario.

Mr. White asked if the Panel has looked at or considered similar levels of transparency on the demand side as exist on the supply side. Mr. N. Campbell responded that some work has been done on the demand side as it relates to forecasting but if there are specific aspects that require focus, the Panel would be interesting in hearing what they are.

Mr. Wight asked if the Panel could look at an overall market design that would incorporate all of the new realities – such as price formation, global adjustment, demand response and conservation - that are occurring and have them be more reflective of outside market conditions. Mr. N. Campbell stated that the Panel's mandate allows them to make recommendations around efficiency improvements but in this report most of the recommendations are more technical and specific. The Panel avoids being repetitious of work that is being performed by others.

Mr. Horrobin questioned to what extent the recommendations with respect to HOEP, if implemented, would have a material impact on some of the pricing behaviours identified. Mr. N. Campbell responded that averaged over a six month period the totals are not large. At the periods where these price fidelity events occurred, the differences can be very substantial. Determining price impacts is labour intensive and the Panel focuses on illustrative events rather than tallying it all up. The Panel's mandate is to identify the magnitude and nature of the concern, not to perform a cost/benefit analysis of that concern.

Mr. Dorey noted that one of the recommendations had been made eight months ago to the Ontario Power Authority and that no action had been taken. He asked if the Panel follows up with parties identified in their recommendations to see if the actions have been taken. Mr. N. Campbell responded that for that particular recommendation the OPA had been contacted and there is work in progress on that recommendation.

Agenda Item No. 5: IESO Response to Market Surveillance Panel Monitoring Report (current and outstanding)

Mr. Kozlik spoke on the 14 recommendations, 11 being operational and the others being related to market evolution. He noted that a number of these recommendations are already being addressed by the IESO and already are in the stakeholder engagement process. He also noted that the IESO makes conscious decisions on how to operate the system and with the market being very dynamic and changing, it is fair to go back and look at prior decisions made and

whether that is the right way to go given the future. The pricing issues that will be looked at will need to be prioritized and this exercise will take place at the market pricing working group in the Fall following the Board's decision on day-ahead market mechanisms.

The IESO response document can be found at:

http://www.ieso.ca/imoweb/pubs/consult/sac/sac-20080820-Item4_MSP.pdf

Mr. Bentz commented that having the recommendations addressed or even indicated that they are being looked at helps close the loop.

Mr. White stated that he has reviewed the IESO response and of the 14 recommendations only 3 indicate that action is being taken on them. Acknowledging that prioritization and stakeholder engagement take time, if issues are standing at the IESO, he enquired what can be done to allocate resources at the IESO to get them moving. He expressed concern that the IESO is exhausting its allocated resources on issues like DAM which have taken an inordinate amount of time. He requested a more active response from the IESO. Mr. Kozlik responded that he agrees that items need to be addressed and looks forward to the prioritization exercised in the fall as it will highlight what will be able to be accomplished and what cannot be accomplished.

Agenda Item No. 6: 2009-2011 Business Plan

Mr. Sergejewich presented the 2009-2011 Business Plan. The presentation included how stakeholder comments were incorporated and the financial projections, at a high level, for the planning period. It was also noted that the Board may make revisions to the plan following their review in September and that the Board values market participant and stakeholder input.

Mr. Sergejewich's presentation can be found at:

http://www.ieso.ca/imoweb/pubs/consult/sac/sac-20080820-Item5_BusinessPlan.pdf

Mr. White noted that the IESO is really more of a fixed cost element of the infrastructure and that its revenues should not be based on consumption volumes. Rather than constrain program growth to electricity volumes, the IESO should first establish program priorities and then figure out how to best design the rates to recover those costs. Mr. Sergejewich responded that the targets were not set based on the volumes/revenues coming in, but focus was on the total costs.

Mr. Bentz asked whether the budget is cost driven or revenue driven. Mr. Sergejewich responded that the IESO's budget is based on costs.

Mr. Wight asked if the specific option for the day-ahead mechanism has to be known at the time the business plan goes to the Board to get the appropriate funding in the business plan.

Mr. Campbell responded that the intention is to get the appropriate approvals from the IESO Board on the day-ahead mechanism and capital spending projects so that everything is in place when the business plan goes to the OEB for approval. Mr. Wight asked a follow-up question on

whether a decision on day-ahead mechanism has to be made by the IESO Board in September. Mr. Campbell responded that the current plan is to ask the Board for a decision in September.

Mr. Whyte noted that of the \$22 million capital budget \$18 million was for special projects. He enquired whether the other \$4 million is for existing plant and equipment. Mr. Sergejewich stated that key projects are identified based on the risks associated with them while the other capital projects have lesser risk and can be moved around if there is shift in the key capital projects.

Mr. Dorey asked if the government had the IESO undertake other programs or initiatives, similar to smart metering, that do not involve the running of the wholesale market and the power grid, would the costs associated with those projects be recovered separately. Mr. Sergejewich stated that it would be addressed at that time and would also depend on the whether the function is allowed by the legislation.

Mr. Horrobin asked if the IESO was confident that the appropriate resources and funding are available to progress in a timely fashion on the number of issues – price transparency, price evolution and price signals to support demand response - that will need to be addressed. Mr. Sergejewich responded that the appropriate resources are in place to work on the priority issues, not all of the issues that are identified. He also noted that once something moves to a project phase, there is the ability to bring in temporary resources and thus to re-allocate resources around the organization on high priority initiatives.

Mr. Humphries asked if the 2009 energy forecast of energy demand being lower is based on planned conservation as outlined in the IPSP. Mr. Sergejewich responded that it is planned conservation based on the IPSP.

Mr. White asked if the demand forecast is different than anticipated and the IESO over collects or under collects, is there a variance account. Mr. Sergejewich responded that there is a surplus account and anything in excess of \$5 million is rebated back to consumers.

Mr. McMillan asked if the key projects are “must have” as opposed to “nice to have” projects and whether efficiency between the IESO, OPA and Hydro One has been looked at. Mr. Sergejewich responded that the key projects are “must have” as some tools have reached the end of their lifecycle or efficiencies are required as in the case of on line limit derivations. The IESO tries to be efficient as possible in its interactions with them, and the roles and responsibilities of the organizations were set out at the outset of the market. There is no explicit plan to undertake a wholesale review of the roles and responsibilities of the organizations. Mr. McMillan noted that the number of full-time employees may not need to change but there is a need to make sure that the appropriate resources are assigned to the priorities. He also said that in going forward the IESO should look at whether it should measure its fees on a per unit basis given the market is changing, including more must run, non-dispatchable, and peaking generation.

Mr. Whyte commented that the stakeholders have asked for a number of initiatives to be worked on by the IESO and that it is reasonable for the Chair to work with the IESO Board and staff to, at the right time, support the IESO's petition to the government of funds. Although we may not agree on of the allocation of all of those funds, the Committee has a responsibility to support the IESO's budget application at the appropriate time, perhaps even testifying.

Mr. Bentz responded that there is a willingness to work together but it must be noted that the Committee is not a decision-making body.

Mr. White stated that if the business case supports moving forward then the IESO should go to the Board and the OEB for funding for those cases. It is the preferred approach for moving forward on this issue rather than engage in internal trade-offs on priorities based on trying to live within some kind of budget envelope for optical reasons. The IESO is a candidate for some kind of fixed or demand-based charge, moving away from cyclical revenue fluctuations based on volume.

Mr. Reeves asked if the \$.822 per megawatt hour is comparable to the usage fee of other ISOs. Mr. B. Campbell responded that based on comparably sized ISO's the IESO is not inconsistent. In comparison to ISO's with much higher volumes their fees are lower.

Mr. Murphy commented that consistent with prior practice, the budget is constrained in that there are not enough resources allocated to market activities to work on all of the issues identified. Not all of the issues have equal value and it is appropriate to prioritize. Not all resources can be based on a business case because many of the issues require investigation, analysis and a determination of whether it is worthwhile to proceed. Accordingly the IESO will make a judgment on an appropriate level of resources for market functions, and in so doing will endeavour to maintain sufficient flexibility to adjust, as necessary, once priorities are established.

Mr. McMillan asked that the IESO look at non-market related activities for efficiency gains to determine if resources can be made available from of those activities. Mr. Murphy responded that the IESO already performs this review based on a risk-based approach, looking for efficiency improvements.

Mr. Cary stated that the IESO underachieved in this area of market related activities by not moving far enough on the day-ahead process, strategic dispatch issues, future day-ahead process, and tactical responses to the MSP report and issues at the market price working group. While it is necessary to prioritize, the IESO should ensure it has adequate resources to address the strategic and tactical responsive issues.

Mr. Abdelnour of Ivaco Rolling Mills asked if the IESO had looked at improving its IT systems so there could be better results and better dispatch including running the DSO on demand in between periods.

Agenda Item No. 7: Application of Cost/Benefit Analysis for Peak versus Average Demand in the Pre-dispatch Scheduling Process

Mr. Rivard updated on the peak versus average initiative that is currently before the market pricing working group and introduced the policy discussion. A more detailed discussion is planned for the October meeting.

Mr. Rivard's presentation can be found at: http://www.ieso.ca/imoweb/pubs/consult/sac/sac-20080820-Item6_Presentation.pdf

Mr. White asked if the effects of HOEP had been looked at on an hourly basis and on an intraday basis. Mr. Rivard responded that the average for the HOEP increase was based on hourly estimates. Mr. White asked if those results were publicly available. Mr. Rivard responded that they are available and have been provided already to some stakeholders who have requested them.

Mr. McMillan commented that it is an assessment of the option cost between the average day and the peak day, and it comes down to who pays for it and who is creating it. In the context of the discussion of price formation are we looking at something that will fundamentally change in the near future? Is it too early or are the benefits there?

Wrap up

The next meeting is scheduled for October 30, 2008.

The meeting was adjourned.