

July 9, 2010

Bruce Campbell
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RE: IESO's 2011 Strategy

Mr. Campbell,

I am writing in response to your request for written input on the IESO's Strategy document. As a generator representative on the Stakeholder Advisory Committee (SAC) Bruce Power routinely conducts conference calls with interested generators in Ontario. The generation community appreciates this opportunity to provide input to the IESO's strategy.

Many of the generators have expressed concern with the broad nature of the strategy paper and felt it lacked the type of detail required to provide specific, meaningful comments. An element of the strategy which demonstrates this concern is the vague usage of "efficiency" throughout the strategy. From the generators' perspective it is unclear what efficiency the IESO is referencing in their strategy – the industry's discussions would be better informed by a clear description of the IESO's intentions when speaking of efficiency in this context. Is the IESO pursuing the short-run goal of allocative efficiency or a longer term goal of investment or dynamic efficiency? Which notion of efficiency the IESO is referring to is important to understand the objectives of the IESO's initiatives.

In that regard, the generators think the objective or end state of the IESO's market evolution initiatives must be identified as a starting point around which all other work should be focused. The lack of this objective, or vision, has created a great deal of uncertainty for generators – and the industry as a whole. The uncertainty in vision contributes to the reluctance of some companies to pursue market evolution due to the potential risk it creates for their operational and financial position. This uncertainty is exacerbated by the apparent lack of coordination between the OPA and the IESO on market evolution related issues. Some companies have stated a reluctance to engage in further market evolution without a commitment from the OPA to fairly address contractual consequences of IESO-initiated market changes that detrimentally affect the economics of their facilities.

Other generating companies recognize that the market needs to evolve in response to the changing supply mix and there are efficiency gains worth pursuing – specifically relating to day at hand commitment, scheduling and dispatch. IESO should however work cooperatively

and impartially with the OPA and firms harmed financially by the IESO's market design changes.

Some generators are interested in participating in the market road map consultation the IESO proposed. Others were sceptical about the need for a road map. Developing a market road map will be a challenging task recognizing that the ultimate decision will require Government direction. The road map exercise can be helpful if it defines feasible and rationale market developments that would be beneficial to Ontario. It is clear there is a growing interest from a broad group of stakeholders in whether the Ontario electricity market evolves towards a more competitive structure or a more regulated design.

In the context of the concerns facing generators a number of issues were identified through our discussion as being of top concern to the entire generation community.

1. Surplus Baseload Generation

The IESO identified SBG as a strategic initiative and the generation community strongly supports addressing this issue as a matter of high priority. The generation community is concerned about the market and operational impacts of months of persistent SBG once Ontario's wind and baseload fleet is fully operational in 2012 and beyond.

The generation community urges the IESO to take a more aggressive and creative approach to managing SBG in the province and to move away from relying exclusively upon nuclear manoeuvres as a solution to SBG in Ontario while respecting and protecting the economics of the other generators thus impacted.

2. Exports

Although not specifically identified by the IESO as one of its strategic initiatives the generator community highlighted this issue as being increasingly important. As Ontario has added capacity and moved from a jurisdiction that relies upon imports to satisfy peak load to a net exporting jurisdiction the IESO's mindset has not adjusted to this new world order. The IESO will need to ensure their decisions don't exacerbate the potential for SBG when scheduling intertie outages.

Exports are an important tool to manage supply and demand and will become increasingly important in future years as Ontario will likely be faced with months upon months of shoulder season SBG. Exports, which routinely account for ~1500 MW of market demand (or 2 Bruce B units), will be the IESO's single most effective tool in minimizing SBG in these high supply situations.

3. Renewable Integration

The generation community concurs with the IESO's identification of Renewable Integration as one of their strategic initiatives. The integration of renewable generation into the Ontario market is an essential element in addressing SBG risk and ensuring the market price can develop the ability to be a reliable indicator of system conditions and efficient dispatch. The

generator community is keenly interested in engaging in a broader discussion of the appropriate future system and contract framework to best accommodate renewable generation in furtherance of energy policy objectives through the responsibilities assigned to the IESO and the OPA.

4. Global Adjustment Reallocation

The Global Adjustment reallocation initiative is an issue that causes concerns among some generators. There was no active discussion or debate of this issue with most stakeholders, and analysis has only been performed on the one solution presented and a narrow range of related options.

In the generators opinion the global adjustment reallocation, while important to a specific stakeholder group, may not be the best method of addressing the inefficiencies the Global Adjustment introduces to the market. It is unclear if the presumed demand management benefits are incremental to those that can be expected under other existing programs, or if these benefits can be achieved more economically by other means. We encourage the IESO to explore other methods of addressing the inefficiencies of the Global Adjustment that would improve the market for all participants. This initiative should be incorporated into the IESO's work on the Market Road Map where the Global Adjustment can be addressed in a broader context and debated with the industry at large.

The IESO's work on this issue raises long standing questions about the time and effort the IESO's expends on issues that may not be the most beneficial for the market. The generators are concerned about the priority the Global Adjustment initiative has received from the IESO at the expense of other stakeholder initiatives that have been placed on hold or outright cancelled due to the claimed increase in workload resulting from the Green Energy Act.

The lack of transparency in the IESO's priority setting is one generator's have commented on in the past. In these situations the IESO consumes scarce resources for work that is of little benefit to generators or the entire marketplace.

5. IESO Providing Advice to Policy Makers

Although not explicit in the report, Generators recommend that the IESO has a critical role in informing policy makers about the operational implications of proposed policy decisions as well as the technical requirements of the electricity system. The IESO should ensure that the policy makers are fully aware of the implications of various proposals on reliability, efficiency and operation of the power system.

The IESO should take a lead role in ensuring the OPA is fully aware of any changes to the market and potential operational impacts so that the OPA can be a fully informed counterparty in potential contract amendment discussion.

6. Control Action Operating Reserve

The IESO should place a high priority on completing the review of the current Control Action Operating Reserve implementation. This work was started in late 2008 but put on hold in early 2009. Generators are concerned that the current implementation inappropriately displaces market based operating reserve

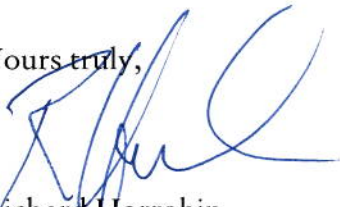
7. Increased Fees in Support of Enhanced Market Evolution Resources

Generators would support a well grounded increase in fees to provide additional resources to help implement these recommendations.

The generation community provides these comments to inform the IESO's thinking when setting the organizations goals and priorities for the coming year and looks forward to continuing our work with the IESO to addressing our mutual priorities.

Please feel free to contact me if you would like to discuss this in further detail.

Yours truly,

A handwritten signature in blue ink, appearing to read 'R. Horrobin', is written over the 'Yours truly,' text.

Richard Horrobin
Generator Representative, SAC