

IESO Stakeholder Advisory Committee
Minutes of Meeting
November 28, 2005
9:30 am

Advisory Committee Members in Attendance

Mr. Brian Bentz	Mr. John LeMay
Mr. Bruce Boland, Chair	Mr. Bruce Lourie
Mr. Bruce Campbell	Mr. Paul McMillan
Mr. Steve Dorey	Mr. Matthew Picardi
Ms. Julie Girvan	Mr. Don Thorne
Mr. Mike Humphries	Mr. Daniel Whyte

SAC Members Absent

Mr. Chuck Stradling

Presenters

Mr. Paul Murphy
Mr. Ken Kozlik

Administration and Introduction

Prior to the meeting, the members of the Stakeholder Advisory Committee (SAC) had elected Mr. Bruce Boland as Chair. Voting for the position of Vice-Chair will occur prior to the next scheduled meeting of the SAC.

Following introductions, Mr. Boland outlined his view of the role of the SAC as being a vehicle for stakeholders to provide advice to the IESO Board and Executive on: 1) issues raised by IESO staff and, 2) issues identified and brought forward by members of the SAC. To the extent that consensus on issues can be achieved it is useful to capture that consensus in a vote. Voting is, however, secondary to the essential purpose of accurately communicating to the IESO the diversity of views, and richness of opinion of committee members.

The SAC had previously decided to schedule its meetings one day before IESO Board meetings to facilitate the attendance of Board members at SAC meetings. By scheduling the meetings immediately before the Board meetings, SAC members have a limited amount of time to consult their constituencies, and set out their positions. It was suggested that it is important that the SAC request direct access to the Board for the purpose of effectively communicating SAC messages to the Board. Mr. LeMay said that where members of the SAC have diametrically opposed views they would need to be present at any meeting with the Board to ensure that their message is effectively communicated.

Mr. Campbell said that Ms. Carr, on behalf of the Board, had reiterated her position that the Board wanted quality advice from the SAC, a sense of the discussions at the SAC, and the positions of respective sectors. The Board had no fixed view on the matter of when the SAC met and recognized that the schedule of meetings may need to vary with the issue. In terms of establishing a SAC schedule it was noted that there is an existing structure to deal with issues such as governance, HR, and the business plan.

In relation to the business plan, for example, stakeholders are informed of the stakeholder engagement process which leads up to submission to the Board, the Minister and OEB. In relation to other important matters, such as the Day-Ahead Commitment initiative, the IESO publishes Stakeholder Plans for consultation.

On motion by Mr. Picardi and seconded by Mr. LeMay the SAC voted to schedule the next several meetings one day in advance of Board meetings and to then move the meetings one to two weeks ahead of Board meetings.

IESO Senior Management Update

Bruce Campbell provided an overview of the IESO's development of a Market Vision, commented on the withdrawal of a proposed rule amendment requiring submission of dispatch data for purposes of overall reliability, and summarized upcoming matters to be addressed by the IESO including demand response, day-ahead market (DAM), pricing issues and dispatch issues.

Mr. Dorey asked about the status of the market vision document and whether it had the support of the OPA and government. Mr. Campbell said that the document was intended to move the discussion forward and that the IESO has spoken with the OPA. In relation to further work on DAM, Mr. Dorey enquired whether a cost-benefit analysis would be done before moving forward. Mr. Campbell said that the cost-benefit analysis would be done during the process as it could not be done until the IESO had a better sense of the specific design stakeholders wanted.

In response to a question regarding pricing issues, Mr. Campbell said that the forum which will deal with these issues was the market pricing working group. Mr. Kozlik said that while the market pricing working group had been in hiatus during the work on immediate reliability issues, the plan for the working group would be released soon with the expectation that the group would address the 12X ramp rate issue in February and the inter-tie issue in March. Based on prior experience there was a concern that the working group avoid dealing with too many issues at once as it tended to slow the work of the group which was based on a three meeting model of 1) raising /describing the issue, 2) discussing the issue, and 3) deciding.

Mr. Humphries asked what issues would come forward to the SAC from the IESO. Mr. Campbell said that the IESO would seek SAC input on anything that would have a significant impact on the market, and emphasized that the Board wanted the views of the SAC on major policy decisions.

Mr. LeMay asked that in looking at dispatch issues the IESO also consider dispatchable load. On DAM, Mr. LeMay cautioned the IESO to avoid its prior practice of proceeding with its own vision of DAM without stakeholder support.

Mr. Picardi asked whether the IESO had sufficient resources to work on both DAM and market pricing issues; he expressed his concern that important work on market pricing issues not be delayed by the complexity of the work to be done on the DAM initiative. Mr. Campbell said bearing in mind IESO and stakeholder resources he believed that all of these issues can continue to move forward. He also commented on the broad support of stakeholders for moving forward on DAM with the main issue being one of determining the specific design.

Mr. Whyte observed the estimated cost of the Day-Ahead Commitment Process was \$8 to \$10 million. Mr. Campbell said that IESO management had met to discuss the cost of the initiative and were of the view that the cost of implementation could be reduced. The implementation would draw on resources from across the organization such that it was primarily a question of available human resources and not

financial resources. Mr. Whyte commented that if resourcing would delay the IESO's ability to address 12X ramp rate and inter-tie pricing the SAC should go to the Board to support a request for additional resources.

Mr. Boland said that from OPG's perspective market pricing issues have been outstanding for a long time. OPG's view is that it has been difficult to get the IESO staff to give these issues the same degree of attention that the IESO staff gives to market evolution. The IESO should get the core of the current market structure working properly before moving on to address market enhancements. In this regard, he would prefer to see the working group's timetable advanced. Mr. Boland is supportive of the SAC advising the Board that the IESO needs to be resourced to work on more than the DAM initiatives. Mr. Picardi added that in addition to providing input on the need for sufficient resources the stakeholders would also have views on establishing work priorities for the IESO.

Mr. LeMay expressed a strong concern that any increase in resources would lead to an increase in electricity prices which would in turn have a negative effect on jobs. He would not support an increase in IESO resources and was of the view that in light of the creation of the OPA the size of the IESO should decrease.

Mr. Bentz commented that while he was sensitive to pricing concerns, after a summer of load shedding, voltage reductions and public pleas for conservation, reliability was essential. The IESO had two key functions: 1) operation of the IESO markets, and 2) reliability; market evolution was part of both of these functions. Reliability was recognized as being critical. His concern, as exemplified by the recent issue of ensuring supply to York Region, is that there is a lack of co-ordination of the roles to be played by the OPA, the IESO and the government.

Mr. Boland said that it came down to the setting of priorities; he suggested that the SAC meet to discuss the IESO's market vision and priorities before its next scheduled meeting of February.

Mr. Campbell noted that the business plan is aligned to address the concerns identified by stakeholders by focusing on reliability and addressing current market issues. He also said that the IESO would welcome discussion on a longer term vision. In response to comments by Mr. Lourie and Ms. Girvan about the need for consensus and government buy in on the vision, Mr. Campbell commented that the document was not a fixed IESO vision but was more in the nature of an IESO/OPA sponsored discussion on these issues.

Mr. Boland observed that there has been significant change in the industry over the last 7 years. He said that the SAC needed to remember that it existed to serve electricity customers, and work for a fair and reliable system. In order to do this, the SAC must turn its attention to setting priorities, market design, and market vision. Mr. Dorey said that while work on a vision is useful it can become a problem if you fail to pay attention to the current market that you have.

Reliability

Presentation made by Paul Murphy regarding the need for reliability measures to be implemented for the summer of 2006 based on the experiences of the summer of 2005.

In response to questions, Mr. Murphy clarified that import failures occurred for both economic reasons (failure to clear exporting market) and security. The thrust of the emergency demand response initiative is to get both certainty of curtailment and a higher volume of load reduction. Mr. Kozlik added that they were looking for a broad spectrum of load reduction from industrial consumers and through aggregation.

Mr. Thorne said that aggregation would be the key and that it may not happen on its own; he also commented that there was a significant opportunity to have public agencies participate.

Mr. Murphy said that operating to emergency conditions with a very limited ability to respond to contingencies – weather, load, import & equipment failures - should not be the norm. Real time, operational unpredictability required that steps be taken now to have a greater ability to respond to contingencies and have improved reliability for the summer of 2006.

Public appeals made a contribution but it was hard to measure; anecdotal evidence and observed shifts in load patterns suggested that they reduced consumption by 200 to 300 MW. He noted that you did not want to overuse public appeals because this could reduce their effectiveness.

In response to a demand response question, Mr. Murphy noted that under the existing scheme – which reflected significant stakeholder opposition to its introduction at all - demand response would only be instituted after all other market actions had been taken.

Day Ahead Commitment Process (DACP)

Presentation made by Ken Kozlik. A motion is to be made to the IESO Board at its next meeting seeking authorization to proceed with the DACP which is to be subject to a sunset clause effective next fall. Any further use of the DACP would be based on the review and consideration of the experiences with the DACP in the summer of 2006. The IESO intends to continue discussions and work relating to a Day-Ahead Market and market pricing issues.

Mr. Boland commented on the balanced presentation and characterization of the issues. Mr. Boland said that the IESO had included in the meeting materials a copy of a paper he had obtained from Charles River and Associates commenting on the proposed DACP, along with a responding paper obtained by the IESO from LECG.

Mr. Boland suggested that the Board resolution should require the IESO to deal with current market pricing issues consistent with the proposed DACP timetable; he was not content to accept the proposed wording that current issues be addressed in “a timely manner”. Acknowledging that reliability is an appropriate objective, there remained a need for further discussion as to whether the DACP should be invoked daily or on an as needed basis. Mr. Boland said that as a generator his concern is that as a temporary measure it not be incorporated into ongoing systems and that it only is used when needed.

Mr. Whyte agreed with Mr. Boland that the IESO move forward at the same time with market pricing issues such as 12X ramp rate and inter-ties setting price. Mr. LeMay said that the industrials wouldn't support removal of 12X ramp rate and this should be conveyed to the Board. Mr. Whyte added that he would vigorously support the introduction of a capacity reserve market which would help to address the current reliability issues.

Mr. LeMay said that industrial consumers were lukewarm on the motion itself and had no strong opposition to the DACP. From his perspective we need to try it to see if it works. Mr. LeMay said that he would strongly oppose the introduction of a capacity reserve market.

Mr. Boland said that while he understood Mr. Whyte's desire to adopt a capacity reserve market, he was limiting his comments to what can be done quickly in conjunction with the DACP such as 12X ramp rate and inter-tie pricing. Mr. Whyte clarified that he was seeking a commitment that the IESO would address the capacity reserve issue without specifying a specific timeline for taking action.

Mr. Bentz sought transparency in the process particularly as it relates to forecast errors that may result in over-commitment of resources and reporting on pricing implications. He requested an analysis of the capital cost of the program and that the expected price impact be weighed against the increase in reliability. In the discussion regarding a cost/benefit assessment of the proposal Mr. Campbell commented on the difficulty of valuing reliability initiatives. While it was clear that DACP would improve system reliability through improved assurance that imports would flow, he could not place a specific dollar value on the benefit of improved reliability. Mr. Bentz enquired as to how the IESO would set the penalty for failed imports; Mr. Kozlik clarified that the proposal contemplates a “charge”, and not a penalty, to avoid a disincentive to transactions.

Mr. Boland noted that the IESO had recently released statistics regarding Day-Ahead forecasting error and that some of the statistics were “alarming”. Mr. Murphy explained that the IESO had a 3% error target in its performance measures and put the larger forecast errors during the summer in context. In Ontario on a hot summer day a 1 degree temperature increase would increase demand by 380 MW and weather prediction models have a margin of error greater than a degree.

Mr. Picardi said that it would be useful to implement the process as early as May 1 to provide time for the IESO and participants to gain experience with the DACP prior to the summer period. He acknowledged the strong case for reliability. He noted that the proposed DACP would address artificial price increases as a result of import failures, and that to be fair it should be noted that artificial mechanisms that have the tendency to suppress price volatility which is an appropriate price signal need to be addressed as well. As a matter of process rather than taking action now, he suggested that the executive summary to the Board should note that there are other pricing issues which need to be looked at and that stakeholders are looking for comfort that they will be addressed. Mr. McMillan supported Mr. Picardi’s comments.

Mr. Dorey asked how the DACP payments would interact with the OPA contracts, observing that it was a floor price being imposed on what was already a floor price. In response and without getting into the details of the contracts, Bruce Campbell said that the initiative had a sunset clause of fall 2006 before any of the OPA contracted generators would be in-service.

Mr. LeMay agreed that one cannot put a price on reliability. Equally important, is the message that the price of electricity is very important too and has significant consequences for industrial consumers. In terms of the other market pricing initiatives for example the 12X ramp rate and the imports setting price, he would not support solutions that increased price. Mr. Boland suggested to Mr. LeMay that the purpose of price signals should be to have an accurate reflection of the economics at the time, and if prices needed to be kept ‘low’, this should be accomplished in other forums. Mr. LeMay responded that we currently didn't have anywhere close to a market and this was reflected in the few prices that we could get.

Mr. Thorne said that if uplift is increasing distributors will have a concern as the distributors hold the variance between the fixed uplift price paid by consumers versus the actual uplift charged but that it was an issue to discuss with the OEB. Mr. McMillan commented that he was shocked at the lack of demand side response and that to encourage response would require accurate pricing.

After caucusing the summary positions of the sectors were:

Mr. Picardi and Mr. McMillan, marketers/brokers: Focus is on reliability and it is a start, there is a long way to go. The DACP should be as transparent as possible so that marketers and brokers can manage their business.

Mr. Bentz and Mr. Thorne, distributors: Agree reliability is an issue, this is a reasonable solution with the following caveats: 1. focus on demand response as part of the solution; 2. transparency, accountability, reporting and understanding of pricing impacts; 3. accountability for use of resources as a result of implementing the DACP.

Mr. Whyte and Mr. Boland, generators: Continue to hold objections contained in the APPrO letter to the IESO; however, they would support the DACP only if the IESO commits to equal and coincident effort to remove 12X ramp rate and allow inter-ties to set price. It is the generators view that these changes could be made very quickly. Mr. Whyte commented that IESO staff and stakeholders did a “tremendous job” to put together a reliability proposal so quickly after the events of summer 2005.

Mr. LeMay, wholesale consumer market participants: Supports DACP but remains concerned regarding price impact. Need to implement to see if it works. Expressed need to keep discussion at high level and not do the Technical Panel’s job.

Mr. Humphries, embedded industrial consumers: support DACP to address reliability issues with comment that work on market issues should not hold up reliability initiatives.

Mr. Dorey, transmitters: Accept these as necessary and affordable measures subject to 3 caveats: 1. no convincing argument has been presented to establish that DACP is needed on a daily basis; 2. monitor costs and pricing impacts; and 3. keep track of impacts and report on them for post mortem in fall.

Ms. Girvan, residential consumers: Support reliability as the highest priority, noting that it is a temporary measure from which we can all learn, and that further work needs to be done on demand response.

Mr. Lourie, environmental sector: Adopted Ms. Girvan’s comments and supported the focus on reliability.

Administration

Mr. Boland sought volunteers to serve on the Agenda Team for the next quarter with the Chair and Vice Chair. The Agenda Team will work to establish agenda’s for the SAC meetings. Mr. Bentz and Mr. Dorey volunteered to serve for the first quarter of 2006.

It was agreed that the SAC would endeavour to meet mid-December to early January to enable the SAC to consider the market vision and priorities. The IESO was requested to canvass member availability and make the arrangements for the meeting. Mr. Lourie requested that the discussion of vision include the role of the IESO in dealing with other agencies involved in the electricity sector.

It was also agreed that when the SAC was meeting one day in advance of Board meetings, the SAC should meet downtown to facilitate Board member attendance. As the meetings evolve to being one or two weeks ahead of the Board meetings consideration could be given to meeting near the airport.

The format of the meeting room facilities – SAC members in centre with other parties at surrounding tables – was approved of by the SAC.

The meeting adjourned at 1 pm.