

August 2, 2006

Ms. Elizabeth Morris  
Manager - Stakeholder Engagement  
IESO  
Station A, Box 4474  
Toronto ON M5W 4E5

Dear Ms. Morris

### **Comments on the IESO's 2007–2009 Business Plan Performance Measures**

Thank you for the opportunity to provide comments on the IESO's Operational Performance Measures for the 2007–2009 Business Plan. OPG recognizes that the IESO has undertaken a number of initiatives to improve their demand forecasts and increase the transparency of their metrics by publishing, on a monthly basis, the day-ahead and day-at-hand bias range and absolute error.

However, OPG has continued concerns related to using annual average values for absolute error and bias range, since annual average values can lead to inaccurate demand forecasts that negatively impact Ontario generators. OPG's main concern is that the proposed demand forecast metrics do not provide the IESO with sufficient incentive to develop processes and tools to improve the accuracy of these demand forecasts.

The IESO's "Operational Performance Measures Rationale and Description" document does a good job to highlight the importance of accurate demand forecasts to facilitate the electricity market. The document rightly notes the following:

- Significant errors in the demand forecast can result in real-time operation that is different from that anticipated based on the forecast.
- Errors must be minimized in order to avoid poor commitment and/or transaction decisions by market participants.
- A forecast bias that is consistently and materially either above or below the actual demand experienced can lead to sub-optimal operation and market price outcomes, and counter-intuitive actions by the market participants. The forecast bias should be maintained within a small range around zero (zero indicates no bias).



OPG submits that the use of annual averages as the performance criteria and the proposed values of  $\pm 5\%$  bias range for all demand forecasts and an absolute error of  $\leq 1.5\%$  (day-at-hand) and  $\leq 2.5\%$  (day-ahead), can result in overly inaccurate demand forecasts. Specifically, the criteria and proposed values do not seem reasonable since they could allow the IESO to over-forecast during on-peak hours (particularly during summer/winter peaks) and under-forecast at night, thereby ending up with overall values within the performance range.

In an effort to provide the IESO with sufficient incentive to develop processes and tools to improve the accuracy of these demand forecasts, OPG recommends the following operational performance metrics related to demand forecasts.

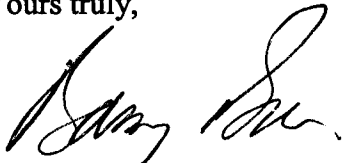
Category/Name	Measure	Criteria	Performance Standard
Day-Ahead Hourly Demand Forecast	Accuracy	Average absolute error for on-peak winter season	1.5%
		Average absolute error for on-peak summer season	1.5%
		Average bias range for on-peak winter season	$-2.5\% \leq \text{Bias} \leq +2.5\%$
		Average bias range for on-peak summer season	$-2.5\% \leq \text{Bias} \leq +2.5\%$
Day-at-Hand Hourly Demand Forecast – 3 hours ahead of dispatch hour	Accuracy	Average absolute error for on-peak winter season	1.5%
		Average absolute error for on-peak summer season	1.5%
		Average bias range for on-peak winter season	$-2.5\% \leq \text{Bias} \leq +2.5\%$
		Average bias range for on-peak summer season	$-2.5\% \leq \text{Bias} \leq +2.5\%$
Day-at-Hand Hourly Demand Forecast – 1 hours ahead of dispatch hour	Accuracy	Average absolute error for on-peak winter season	1.5%
		Average absolute error for on-peak summer season	1.5%
		Average bias range for on-peak winter season	$-2.5\% \leq \text{Bias} \leq +2.5\%$
		Average bias range for on-peak summer season	$-2.5\% \leq \text{Bias} \leq +2.5\%$

As outlined in our July 10, 2006 letter to the Chair and Vice-Chair of the Stakeholder Advisory Committee, OPG suggests that the IESO develop an action plan to improve the IESO performance relating to demand forecasting in all time frames for implementation beginning in 2007.

Ms. Elizabeth Morris  
August 2, 2006  
Page 3

If you have any questions or require additional information, please feel free to call me.

Yours truly,

A handwritten signature in black ink, appearing to read "Barry Green". The signature is fluid and cursive, with a large initial "B" and "G".

Barry Green  
Director - Markets and Research  
Regulatory Affairs & Corporate Strategy

cc. Bruce Boland