

### **Decision of the IESO Board of Directors – September 5, 2008**

#### **Approval to Implement Enhanced Day-Ahead Arrangements**

##### **Board Decision:**

The IESO Board has approved the following Management recommendation:

- Implementation of the enhanced day-ahead commitment processes (common elements, guarantees and export inclusion) associated with Options 1 and 2. The common elements include (i) a unit commitment process based on 24-hour optimization; (ii) inclusion of three-part offers; and (iii) provision of a multiple pass unit commitment process.

This approval does not extend to the Energy Forward Market (EFM) being considered in association with Option 2. Management will continue to review EFM alternatives and report back to the Board later in 2008.

##### **Background and Rationale for Decision:**

In making its decision to approve the recommendations, the Board considered stakeholder feedback and the advice it received from the Stakeholder Advisory Committee.

As outlined in [Update on Day-Ahead Mechanisms](#) overall, the IESO day-ahead Team ranked Option 2, an enhanced day-ahead commitment process with an Energy Forward Market, as the option that would provide the highest net benefits to the province relative to the current Day-Ahead Commitment Process (DACP). In the Team's view, Option 2 was robust enough to meet the needs of today and support the planned changes in Ontario's electricity sector without inhibiting future market evolution initiatives or stranding the associated development work and investment in market systems.

As for Option 3, the difficulties in trying to match financial outcomes and physical dispatch, and the potential stranding of an investment that would further embed the difficulties associated with the use of an unconstrained schedule, undermined its potential advantages. Option 3 did not offer the range of benefits associated with conventional day-ahead markets in surrounding jurisdictions, all of which produce prices based on constrained schedules.

Management will bring its recommendation as to vendor selection to a future Board meeting for approval and will regularly update the Audit Committee on project progress and costs.

The preliminary project milestones are as follows:

- Submission of the capital budget for the project to the Ontario Energy Board in the context of the IESO's fee application – November 2008
- Finalized design of common elements, cost guarantees and export inclusion -- November 2008
- Completion of detailed design for procurement and issuance of RFP -- March 2009
- Selection of vendor -- April 2009
- User acceptance testing (subject to review in association with procurement) -- June 2010

### **Observation**

The study and discussion with stakeholders of day-ahead market design issues has deepened everyone's appreciation of the difficulties faced in attempting to evolve the market in the face of unconstrained price-setting in the existing real-time market. With this decision taken, the IESO will work with participants and Stakeholder Advisory Committee members to improve the current real time pricing model and remove barriers to achieving additional efficiencies in the Ontario electricity market.