

Revision 3: Schedule of activities update to reflect change in timelines due to additional analyses. For more information see: <http://www.ieso.ca/imoweb/news/newsItem.asp?newsItemID=3150>

I. Introduction

As part of IESO's continuing efforts to reduce the financial burden to those participating in the IESO administered-markets, we are pleased to announce the commencement of a review of the physical market prudential framework. If savings are realized as a result of this review, they could be used to invest further in Ontario's economy. Changes to the current prudential framework will be limited to those that do not require market design changes.

Background

As a condition of purchasing energy in the real-time markets or conveying electricity through the IESO-controlled grid, a market participant must provide the IESO with prudential support to guard against payment default. Prudential support is necessary because electricity is consumed at the moment it is generated and it cannot be stored for future use, therefore it is not possible to recover the physical commodity if we do not receive payment.

The market rules direct us to pay creditors (e.g. generators) in full on the payment date with funds received from debtors (e.g. consumers), and to collect prudential support from debtors. However, as a result of reductions for creditworthiness or good payment history, the prudential support held could be less than the defaulted amount. We do not assume the risk of this differential or any other loss caused by the default of a market participant; rather all non-defaulting market participants assume the loss through a default levy process. Accordingly, the risk management objective of prudential support is to obtain a level of financial security that adds a reasonable degree of protection to participants in the IESO-administered markets against a default levy occurring.

Situation

As of February 2006 the IESO held approximately \$1.14 billion in prudential support on behalf of its market participants. In its four year history, the market has not experienced a default levy however; there have been two defaults where prudential support has been drawn upon to settle the market at invoicing time. During these last four years many stakeholders have commented that the cost of providing prudential support is too high and that certain aspects of the framework needed a review for reasonableness. We now have a sufficient amount of history to commence with this stakeholder plan.

Key Issues

If prudential requirements are lowered the risk of a default levy will increase although not necessarily to the same degree. This risk is borne by all market participants under the current market design.

II. Stakeholders

Any changes to prudential requirements directly impacts consumers, local distributions companies, exporters, and generators. Other stakeholders could be affected by the outcome of this review and will be included in consultations.

III. Stakeholder Engagement Goals and Objectives

The goal is to determine if the current amount of prudential security provides more than a reasonable degree of financial security and, if so, to provide recommendations of how the prudential burden of market participants can be reduced within the current market design.

Objectives

1. To provide stakeholders the opportunity to provide feedback on the current physical market prudential framework, including areas of concern;
2. To provide stakeholders the opportunity to provide suggestions on how the prudential framework may be changed within the current market design; and,
3. To ensure that the proposed solutions fit within the current market design.

IV. Stakeholder Engagement Approach and Methods

Overview

The proposed stakeholder engagement approach involves stakeholder consultation – seeking stakeholder input throughout the decision making process involving two way dialogue using face-to-face meetings or written feedback. We will also be engaging an independent consultant to assist in this review. Individual meetings with members of a consultation group are targeted for July and August. A draft report with recommendations will be issued in early December. At that time stakeholders will be asked for written feedback which we will respond to in January.

Approach and methods

A stakeholder consultation group of approximately 15 individuals will be formed consisting of a balanced and fair representation of impacted stakeholder sectors. Stakeholders interested in participating in the consultation process will be asked to submit their names to stakeholder.engagement@ieso.ca no later than June 1, 2006. A list of those in the final consultation group will be posted the web on June 7, 2006. We highly recommend that those who wish to be involved in the consultation phase have an understanding of the current prudential framework and some understanding of risk management.

Whether part of the consultation group or not, feedback is welcome from all stakeholders and can be sent to stakeholder.engagement@ieso.ca

We will meet with each of the consultation group representatives individually to document their current challenges and any suggestions they wish to be investigated. We will then combine the information gathered from these meetings with the information we have gathered from sources such as other ISO's and credit rating agencies. This material will serve as the main source of information for the review. Specifically, it will be used to determine if and how the prudential requirements can be lowered.

V. Decision Making Steps and Schedule of Activities

Stakeholder Engagement Schedule – Prudential Review	
Activity	Target Date
1. Post stakeholder plan and call for stakeholder representatives to participate in a consultation group. (see http://www.ieso.ca/imoweb/news/newsItem.asp?newsItemID=2890)	Completed May 25
2. Stakeholder deadline for submission of representatives for consideration.	Completed June 1
3. List of stakeholder representatives for the consultation group posted on the web. (see : http://www.ieso.ca/imoweb/pubs/consult/se23/se23-consultation-group.pdf)	Completed June 7
4. Issue Terms of Reference and Historical Issue documents in preparation for the individual meetings. (see : http://www.ieso.ca/imoweb/pubs/consult/se23/se23-Prudential-Review-TOR.pdf and http://www.ieso.ca/imoweb/pubs/consult/se23/se23-Prudential-Review-HI.pdf)	Completed July 10
5. Meetings with stakeholder consultation group members to receive their feedback about the prudential framework for the physical market. Meetings will be individual or group, telephone or in-person (this will depend on the level and nature of interest).	Completed in August
6. Issue final Issues List for comment from all stakeholders.	Completed
7. Deadline for comments on the final Issues List from all stakeholders.	Completed
8. Issuance of draft report and request for written feedback.	January 31, 2007
9. Deadline for written stakeholder feedback on the draft report.	February 15, 2007
10. IESO response to stakeholder feedback on the draft report posted on web.	March 1, 2007
11. Presentation to stakeholder consultation group of draft report, including recommendations.	March 7, 2007
12. Presentation to the Stakeholder Advisory Committee of the final report, including recommendations.	April 4, 2007
13. Presentation to the IESO Board of Directors of the final report, requesting endorsement of proposed changes to physical market prudential framework; and seeking their direction to IESO management and the Technical Panel to implement the changes through the market rules.	April 26, 2007
14. Development of draft market rules along with revisions to manuals in parallel.	To be determined
15. Market rule amendment submission to Technical Panel.	To be determined
16. Market rule amendment proposal to Technical Panel for review and posting for stakeholder comment.	To be determined
17. Market rule amendment proposal vote of recommendation at technical panel.	To be determined
18. IESO Board approval of market rules.	To be determined
19. Market manual revisions finalized with stakeholders.	To be determined