

**VIA FASCIMILIE & ELECTRONIC MAIL**

January 26, 2007

Ms. Kirsten Walli  
Secretary  
Ontario Energy Board  
27<sup>th</sup> Floor  
2300 Yonge Street  
Toronto, ON M4P 1E4

Dear Ms. Walli:

**Re: Independent Electricity System Operator  
License Compliance Report for Fourth Quarter 2006**

Section 6 of the Independent Electricity System Operator (the “IESO”) License (EI-2003-0088) sets out conditions for the provision of information to the Ontario Energy Board (the “Board”) pertaining to the administration of the IESO-administered market and operation of the IESO-controlled grid to enable the Board to monitor compliance with the License and other regulatory requirements. In this regard, the IESO’s license compliance report for the fourth quarter of fiscal year 2006 is as follows:

1. Section 6.2(a) requires that the IESO provide such information as the Board may require from time to time to enable the Board to monitor compliance with the conditions of the License and any other legislative or regulatory requirements set out in the License.

**Status:**

- This compliance status report fulfils this requirement.
2. Section 6.2(b) requires that the IESO notify the Board of any material change in circumstances that adversely affects or is likely to adversely affect the IESO’s ability to comply with the License, its financial integrity, or its ability to carry out its responsibilities under the *Electricity Act, 1998*, as soon as practicable after the occurrence of any such change, but in any event within fifteen days of the date upon which such change becomes known to the IESO.

**Status:**

- There was no adverse change in the IESO's circumstances that affected its ability to comply with this provision.
3. Section 6.2(c) requires that the IESO provide the Board with any information that is required by the Market Rules to be provided to the Board by the IESO and, upon request by the Board, with such information produced by a panel established by the IESO, including reports produced by the Market Surveillance Panel.

**Status:**

- On October 13, 2006, the IESO filed with the Board a forecast, and supporting documentation of the number of kilowatt-hours of electricity that will be withdrawn from the IESO-controlled grid during the 2007 calendar year, pursuant to the requirements of Ontario Regulation 442/01 for determination of the Rural or Remote Electricity Rate Protection charge. The IESO also provided a copy of the forecast and supporting documentation to Hydro One Networks Inc. as required by the regulation.
- On October 30, 2006, the IESO filed with the Board its proposed expenditures and revenue requirements and the fees that it proposes to charge market participants in 2007.
- On November 13, 2006, the IESO provided the Board with the following three market rule amendments that the IESO Board of Directors would consider and potentially approve at its meeting on November 17, 2006, as well as an impact assessment on the interests of consumers with respect to prices, reliability and quality of service, the Technical Panel voting results and effective dates of the proposed amendments.
  - i. **MR-00284-R00-R02: Reliability Compliance - Include Reliability Impact as Criterion for Determining Financial Penalties**
    - This amendment proposed to more explicitly identify the consequences of non-compliance with reliability standards and the Ontario power system restoration plan.
    - The amendment ensures that breaches of the market rules that have an impact on reliability are treated equally with breaches that have an impact on market operations. The introduction of a maximum financial penalty would also address stakeholder concerns regarding the existing unlimited liability facing market participants for breaches of the market rules.
  - ii. **MR-00312-R00-R02: Revenue Metering - Retaining Registration Under the Alternative Metering Standard**

- This amendment would provide the IESO with the authority to grant, under specified conditions, metered market participants the right to retain registration of a revenue metering installation under the alternative meter installation standard in the market rules (Chapter 6 section 4.4 and Appendix 6.2).
- If granted the right to retain registration, the metered market participant would not be required to upgrade the entire metering installation to meet the full Chapter 6 revenue metering standard.

**iii. MR-00325-R00: IESO Procurement Markets - Duration of Contracted Ancillary Service Contracts**

- The proposed amendment would extend the permitted term of contracted ancillary service contracts from 18 months to 36 months.
- On November 20, 2006, the IESO filed with the Board the above-noted market rule amendments that were unanimously approved by the IESO Board of Directors at its meeting on November 17, 2006.
  - On December 21, 2006, the IESO filed with the Minister of Energy and the Board its 18-Month Reliability Outlook entitled “An Assessment of the Reliability of the Ontario Electricity System from January 2007 to June 2008.”
4. Section 6.2(d) requires that the IESO provide the Board with a copy of the IESO’s annual report as submitted to the Minister of Energy pursuant to subsection 21(1) of the Electricity Act, 1998.

**Status:**

- The IESO’s audited Financial Statement for fiscal year 2005 was submitted to the Minister of Energy on March 31, 2006 and filed with the Board on April 3, 2006. The Consolidated Financial Statement is also included in the IESO’s “2005 Year in Review” that was filed with the Minister and the Board on May 10, 2006 and May 11, 2006, respectively.
5. Section 6.2(e) requires that the IESO post the annual report as submitted to the Minister of Energy pursuant to subsection 21(1) of the Electricity Act and the IESO’s quarterly financial statements on its public Website.

**Status:**

- The audited 2005 Consolidated Financial Statement and 2005 Year in Review Report are posted on the IESO’s public Website.

- The un-audited Financial Statements for the first three quarters of 2006 are posted on the IESO's public Website. The fourth quarter and full year Financial Statements will also be posted on the IESO's public Website upon completion, and review and approval by the IESO Board of Directors Audit Committee.
6. Section 6.2(f) requires that the IESO provide the Board, on or before the end of each calendar year, with a summary of any significant activities related to the development of reliability standards undertaken by the IESO pursuant to subsections 5(1)(f) or 5(1)(g) of the Electricity Act.

**Status:**

- On December 21, 2006, the IESO filed its 2006 reliability compliance report of significant activities related to the development of reliability standards which was undertaken by the IESO pursuant to subsections 5(1)(f) and 5(1)(g) of the Electricity Act, 1998.
7. Section 8.1 authorizes the IESO to enter into an agreement ("Agreement") with any transmitter providing for the direction by the IESO of the operation of the transmitter's transmission system. Following a request by the IESO to enter into an Agreement, the IESO and the transmitter shall enter in an Agreement within a period of 90 days, unless extended with leave by the Board. The Agreement shall be filed with the Board within 20 days of its completion.

**Status:**

- No new Agreement was entered into with Ontario transmitters.

Should you have any question about any of these matters, please feel free to call me at (416) 506-2858.

Yours truly,

***Original signed by***

Carl Burrell  
Senior Regulatory Analyst  
Regulatory Affairs  
Independent Electricity System Operator

cc. Brian Hewson, Chief Compliance Officer, Ontario Energy Board