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October 31, 2012

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
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Independent Electricity
System Operator
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Dear Ms. Walli:

**Re: Independent Electricity System Operator
Ontario Energy Board Licence Compliance Report for the Third Quarter of 2012**

The conditions requiring the reporting of information to the Ontario Energy Board (the "Board") are set out in Sections 6, 8 and 13 of the Independent Electricity System Operator's (the "IESO") Licence (EI-2008-0096). The reporting conditions enable the Board to monitor IESO compliance with its Licence.

Following is a compliance reporting on the provisions of the IESO's Licence for the third quarter of 2012.

1. Paragraph 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 IESO's Licence and any other legislative or regulatory requirements set out in the Licence.

Status: This quarterly compliance report fulfils this requirement.

2. Paragraph 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 Licence, its financial integrity, or its ability to carry out its responsibilities under the *Electricity Act*, 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 were no material changes in the IESO's circumstances that adversely affected its ability to comply with this provision.

3. Paragraph 6.2 c) requires that the IESO provide the Board with any information that is required by the Market Rules ("MR") to the Board by the IESO. These reporting requirements are set out as follows:

- (a) IESO MR: Chapter 3, Section 4.7.5A requires the IESO to notify Market Participants and the Board of any IESO Board of Directors' decisions related to market rule amendments in accordance with the provisions set out in the *Governance and Structure By-law* and *Electricity Act, 1998* – namely:
- a. Provide the Board with a Consumer Impact Assessment of market rule amendments prior to submission to IESO Board for decision (Section 32 (6)).
 - b. Provide the Board with the IESO Board of Directors' decision on or before the date the IESO publishes the amendment (Section 33(2)) along with any verbal or written comments received on the proposed amendment in accordance with O.Reg 610/98, Section 7.
 - c. Publish the rule amendment 22 days before the amendment comes into effect (Section 33(1)).

Status:

The IESO provided the Board with the following proposed market rule amendments that the IESO Board of Directors approved at its meeting on September 7, 2012 including those comments received and an impact assessment on the interests of consumers with respect to prices, reliability and quality of service.

- (i) MR-00381 - Renewable Integration | Centralized Forecasting Integration, Publication, Dispatching Variable Generation
 - a. MR-00381-R00 - Centralized Forecasting Integration
 - b. MR-00381-R01 - Centralized Forecasting Publication
- (ii) MR-00393 - Limiting Payments to Exports During Negative Prices
- (iii) MR-00394-R00 and R01 - Bulk Electric System Exceptions
- (iv) MR-00395 - Limiting CMSC Payments to Constrained Off Imports into Designated Chronically Congested Areas

Details for each market rule amendment can be found on the IESO website at:
http://ieso.ca/imoweb/amendments/mr_Amendments.asp

- (b) IESO MR: Chapter 3, Section 6.2A.3 requires the IESO to provide the OEB with a copy of any notice of suspension, deregistration of facilities or termination issued to a market participant who is in breach of the market rules as well as any follow up action or order issued as a result.

Status: No instances to report during this quarter.

- (c) IESO MR: Chapter 5, Section 7.10.2 and 3 requires the IESO to send to the Board the details of any adverse conditions on the IESO controlled-grid that resulted in IESO giving direction to a transmitter for proposed grid enhancement.

Status: No instances to report during this quarter

- (d) IESO MR: Chapter 7, Section 13.2.2 requires the IESO to notify the Board and relevant government authorities of any suspension of market operations. Chapter 7, Section 13.7.3 also requires the IESO to provide a preliminary report to Market Participants, the Board and government of the circumstances within 10 business days following the event.

Status: No instances to report during this quarter.

- (e) IESO Market Manual 2.11: Section 1.3 requires the IESO to submit a copy of the 18-Month Outlook to the OEB, to the Minister of Energy and to subsequently post it on the IESO website.

Status:

The IESO submitted copies of the 18 Month Outlook entitled “An Assessment of the Reliability and Operability of the Ontario Electricity System from September 2012 to February 2014” to the OEB and the Minister on September 12, 2012 and posted it on the IESO website on September 12, 2012.

4. Paragraph 6.2 d) requires that the IESO provide the Board with a copy of the IESO annual report as submitted to the Minister pursuant to subsection 21 (1) of the *Electricity Act*.

Status:

As reported in the Ontario Energy Board Licence Compliance Report for the First Quarter of 2012, the IESO’s 2011 Annual Report was submitted to the Minister of Energy on March 30, 2012.

5. Paragraph 6.2 e) requires that the IESO post the annual report as submitted to the Minister of Energy and the IESO quarterly financial statements on its public website.

Status:

- The IESO 2011 Annual Report was posted on the IESO public website on March 30, 2012, which includes the quarterly financial statements.
- The unaudited Financial Statements for the second quarter of 2012 were posted on the IESO website on August 7, 2012.
- The unaudited Financial Statements for the third quarter of 2012 will be posted on the IESO website on November 30, 2012.

6. Paragraph 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) or 5(1)(g) of the *Electricity Act*.

Status:

As previously reported, the 2011 reliability standards compliance report was filed with the Board on December 19, 2011. The corresponding report for 2012 will be filed with the Board by December 21, 2012.

7. Paragraph 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 has been entered into with Ontario transmitters.

8. Paragraph 13.1 requires that the IESO notify the Board of any material change to its accounting procedures.

Status: There were no material changes to accounting procedures during this quarter.

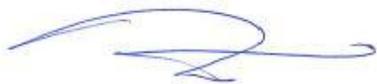
9. Paragraph 13.2 requires that the IESO shall, no less than 60 days before the beginning of the fiscal year, submit its proposed expenditure and revenue requirements for the following fiscal year and the fees it proposes to charge during that year to the Board for review and approval.

Status:

As reported in the Ontario Energy Board Licence Compliance Report for the First Quarter of 2012, the IESO informed the Board by letter dated November 2, 2011 that it was not in a position to file its 2012 Fees Submission; awaiting Minister of Energy approval of its 2012 - 2014 Business Plan in accordance with Section 19(1) of the *Electricity Act*. On December 22, 2011 the Board issued an Interim Fees Order for the IESO to continue its current fee and charges (effective January 1, 2012) until such time as the IESO will be in a position to file its 2012 Fees Submission.

If you have any questions about this report, I can be reached at 905-855-6481.

Yours truly,



David Barrett, CA
Regulatory Affairs and Sector Policy Analysis

cc: Peter Fraser, Managing Director Regulatory Policy, Ontario Energy Board
Viive Sawler, Manager, Conservation and Reporting, Ontario Energy Board
Brian Rivard, Manager, Regulatory Affairs and Sector Policy Analysis, IESO