

VIA FASCIMILIE & ELECTRONIC MAIL

April 27, 2007

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

Dear Ms. Walli:

**Re: Independent Electricity System Operator
License Compliance Report for First Quarter 2007**

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 first quarter of fiscal year 2007 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 January 16th, 2007, the IESO provided the Board with the following market rule amendment that the IESO Board of Directors would be considering for approval, as well as an impact assessment on the interests of consumers with respect to prices, reliability and quality of service.
 - i. **MR-00331-R00: Market Pricing – Specify the Facility Ramping Capability in the Market Schedule**
 - The amendment proposes to define the market parameter that controls the ramp rate multiplier used in determining energy market prices. The existing market rules authorize the IESO to establish that parameter but do not define its value. Prior to market commencement in 2002, the IESO set the parameter such that the ramp rate multiplier used for pricing was 12-times the actual ramping capability of Ontario generation facilities. That value was intended to be temporary.

On January 18th, 2007, the IESO filed with the Board the above-noted market rule amendment (MR-00331-R00) that was approved by the IESO Board of Directors, as well as the date the amendment is expected to come into force, and a summary of stakeholder and Technical Panel comments received during the consultation process regarding the impact of the amendment on consumers with respect to the prices, reliability and quality of electricity services.

- On February 5th, 2007, the IESO provided the Board with the following market rule amendment that the IESO Board of Directors would consider and potentially approve at its meeting on February 8, 2007, as well as an impact assessment on the interests of consumers with respect to prices, reliability and quality of service.
 - i. **MR-00327-R00: Dispatch Data Submissions - Price Changes Inside the Mandatory Window**
 - The amendment is required to provide transparency in the market rules that dispatch data price changes are allowed in the mandatory window for the specified reasons. The proposed amendment would result in dispatch of facilities and market pricing on the basis of more accurate dispatch data reflecting the capabilities of the affected facilities. This transparency

would ensure consistent IESO treatment of such dispatch data change requests from market participants. The amendment would also allow IESO to refer any dispatch data price changes made under the proposed rule to the Market Surveillance Panel for review.

On February 9th, 2007, the IESO filed with the Board the above-noted market rule amendment (MR-00327-R00) that was approved by the IESO Board of Directors at its meeting on February 8, 2007, as well as the date the amendment is expected to come into force, and a summary of stakeholder and the Technical Panel's comments received during the consultation process regarding the impact of the amendment on consumers with respect to the prices, reliability and quality of electricity services.

- On February 19, 2007, the IESO filed its annual report with the Board regarding the amount collected from market participants in 2006 pertaining to the Rural or Remote Electricity Protection Charge.
 - On March 9, 2007, the IESO provided the Minister of Energy and the Board with its 18-Month Reliability Outlook entitled "An Assessment of the Reliability of the Ontario Electricity System from April 2007 to September 2008."
 - On March 19, 2007, the IESO submitted its Ontario Reliability Outlook (the "ORO") to the Minister of Energy, Ontario Power Authority and the Board. The ORO reports on the overall security and adequacy needs for the province, progress being made on various generation, transmission and demand-side projects underway to meet those needs, as well as projects currently under study or proposed to address regional requirements.
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 annual report for fiscal year 2006 was submitted to the Minister of Energy and filed with the Board on March 30th, 2007.
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 IESO's 2006 annual report was posted on the IESO's public Website on March 30, 2007 .

- The un-audited Financial Statements for the first three quarters of 2006 are posted on the IESO's public Website. The full-year audited Financial Statements are also posted on the IESO's public Website.

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