

VIA GROUND AND ELECTRONIC MAIL

October 30, 2007

Ms. Kirsten Walli
Board 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 Third 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 third 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 September 4th, 2007, the IESO provided the Board with the following market rule amendment that the IESO Board of Directors would be considering and potentially approving at its meeting on Friday September 7th, 2007, as well as an impact assessment on the interests of consumers with respect to prices, reliability and quality of service.

i. MR-00332: Operating Reserve (OR) - Reducing Synchronized OR Requirement due to Regional Reserve Sharing Program Changes.

This amendment would enable the IESO to reduce its synchronized and/or non-synchronized ten-minute operating reserve requirement by a total of 100 MW, in accordance with Northeast Power Coordinating Council's recently approved changes to its Regional Reserve Sharing program.

The market efficiency gains that would result from this change are estimated to be approximately \$20,000 per year.

On September 10th, 2007, the IESO filed with the Board the above-noted market rule amendment which was approved by the IESO Board of Directors at its meeting on September 7, 2007, a notification regarding the date the amendments are expected to come into force, as well as a summary of stakeholder and the Technical Panel's comments received during the consultation process regarding the impact of the amendments on consumers with respect to the prices, reliability and quality of electricity services.

- On September 10th, 2007, the IESO provided the Board with its quarterly electricity demand forecast and its assessment of the reliability of the IESO-controlled grid covering the period October 2007 to March 2009.

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 Statement of Operations and Accumulated Surplus for the first and second quarter of 2007 are posted on the IESO's public Website. The third quarter statement will be posted on the IESO's public Website before but no later than November 30, 2007.

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. The report for 2007 will be filed with the Board by December 31, 2007.

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