

IESO SENIOR MANAGEMENT UPDATE

To: Stakeholder Advisory Committee

Date: June 28, 2006

Subject: Natural Gas-Electricity Interface Review (NGEIR)

Information Item

Background

In March, 2005, the Ontario Energy Board (OEB) issued a report entitled “Natural Gas Regulation in Ontario: A Renewed Policy Framework Report on the Ontario Energy Board Natural Gas Forum”. Following this the OEB initiated the Natural Gas-Electricity Interface Review (NGEIR) to address issues raised in the report. The IESO is an observer in this review.

This update provides a summary of IESO’s involvement in the NGEIR proceeding.

NGEIR Report

The IESO provided input into the NGEIR report (along with OPA, APPrO and, Hydro One) which was completed in November, 2005. The OEB invited parties to comment on the issues to be addressed in a hearing.

In early December IESO submitted its comments to the OEB where we apprised the OEB of the latest developments with respect to the IESO’s proposed day-ahead commitment process (DACP), including the stakeholdering engagement process. We indicated that discussions on day-ahead electricity market alternatives would resume in 2006, and that the IESO would endeavour to ensure that the electricity and gas markets were coordinated to ensure reliable electricity supply from gas-fired generators.

Also in early December, APPrO filed its comments on the issues the OEB staff proposed should be included in the hearing.

In addition, the OEB is relying on the gas-electricity interface working group (GEIWG) to establish a communication protocol between the IESO and pipeline distribution companies that satisfies the planning and real-time operational requirements affecting the reliability of both the gas and electricity sectors. Initial members of the GEIWG included gas pipelines and the IESO. Gas-fired generators will be participating in the GEIWG starting this September

IESO Files Evidence on Rates for Gas-Fired Generators

On February 28, 2006, the OEB requested the Union Gas and Enbridge Gas Distribution (gas utilities) to file evidence with respect to potential rates for gas-fired generators. The OEB also invited other parties to file evidence on NGEIR issues.

The IESO filed evidence on May 1st that outlined our current scheduling process and how that process will change starting June 1, 2006 under the DACP.

We advised the OEB that we considered Union Gas' and Enbridge's evidence to be fair and reasonable. We agreed with Union Gas that predictability of gas-fired generation load will become even more predictable under the DACP or the proposed evolution towards a full day-ahead market (DAM). Although DACP/DAM will increase scheduling predictability, we also said that the increased flexibility offered by the enhanced gas services is likely to continue to be of value. We concluded by stating that the enhanced services proposed by Union Gas and Enbridge should provide complementary processes that afford more flexibility and improved system performance; benefits that should accrue to gas generators and consumers as a whole, regardless of how the electricity market unfolds in the future.

APPrO also filed evidence on NGEIR issues on May 1st, 2006.

NGEIR Technical Conference

Along with other participants, the IESO was invited to provide all participants in the NGEIR proceeding the opportunity to ask questions at a technical conference on May 16-19.

Before answering questions on our filed evidence, we made an opening statement addressing issues about whether the DACP and DAM would make the proposed enhanced gas services unnecessary. We emphasized that the DACP would provide an improvement over the current scheduling process by producing schedules that more accurately reflect the resources needed in real-time much earlier than the initial pre-dispatch schedules produced today.

We said this would be accomplished by:

- Ensuring complete participation in the initial run of pre-dispatch by generators expecting to participate in real time;
- Removing uncertainty associated with the start times and minimum run time for certain generators; and,
- Providing incentives for imports to offer into the day-ahead time frame and flow in real-time.

We also stated that although the design of a future DAM has not been determined, it is the IESO's expectation that, at the very least, the level of certainty provided under DACP will be maintained. While the uncertainties due to events between day-ahead and real-time remain, we said we believed the flexibility offered by enhanced gas services will be of value to the reliability of the electricity system for dealing with the uncertainties on the power system between day-ahead and real-time dispatch by making it easier for gas-fired generators to alter their use of the gas system.

APPPrO also participated in the technical conference by providing other parties the opportunity to ask questions on the evidence they filed.

NGEIR Settlement Conference

We participated in the settlement conference that took place from May 29 to June 13. Agreement was reached on the following six issues:

- More frequent nomination windows for distribution, storage and transportation that correspond with the nominations of upstream pipelines that connect to the Ontario gas system.

- Firm high deliverability service from storage with customer options for 1.2%, 5% and 10% deliverability.
- Gas storage and distribution offered as discrete services.
- Inter-franchise movement of gas (i.e., the ability to access services across Ontario, whether to a customer's own account or as a sale to a third party).
- Redirection of gas to a different delivery point on short notice (i.e. the ability to redirect or acquire gas on short notice to a different delivery point).
- The ability to transfer the title of gas in storage (i.e. the title transfer in gas storage is treated as an administrative matter instead of a physical withdrawal or injection of gas).

By agreeing to the terms of the settlement proposal, APPrO was satisfied with the level of flexibility offered in the proposed rates for gas-fired generators. The IESO believes the issues addressed in the settlement proposal will enhance power system reliability and market efficiency.

NGEIR Oral Hearing

An oral hearing commenced on June 19 where the settlement proposal was presented to the OEB. The oral hearing is expected to continue until July 20, 2006. At that hearing, the participants who have filed evidence (including the IESO) are expected to have witnesses available to speak to each of the settled issues pertaining to their evidence. The IESO will continue to monitor activities during the oral hearing phase of the proceeding.