

2007 – 2009 Business Plan

Stakeholder Advisory Committee
September 5, 2006

Gary Sherkey - VP Corporate Services; CFO & Treasurer
Ted Leonard - Director, Finance
Peter Sergejewich - Director, Corporate Planning



- **Walk through the IESO's draft 2007-2009 Business Plan:**
 - highlight the drivers and key initiatives within the plan.
 - outline the financial outlook for the IESO
- **Seek comments from Stakeholder Advisory Committee members on the proposed plan**

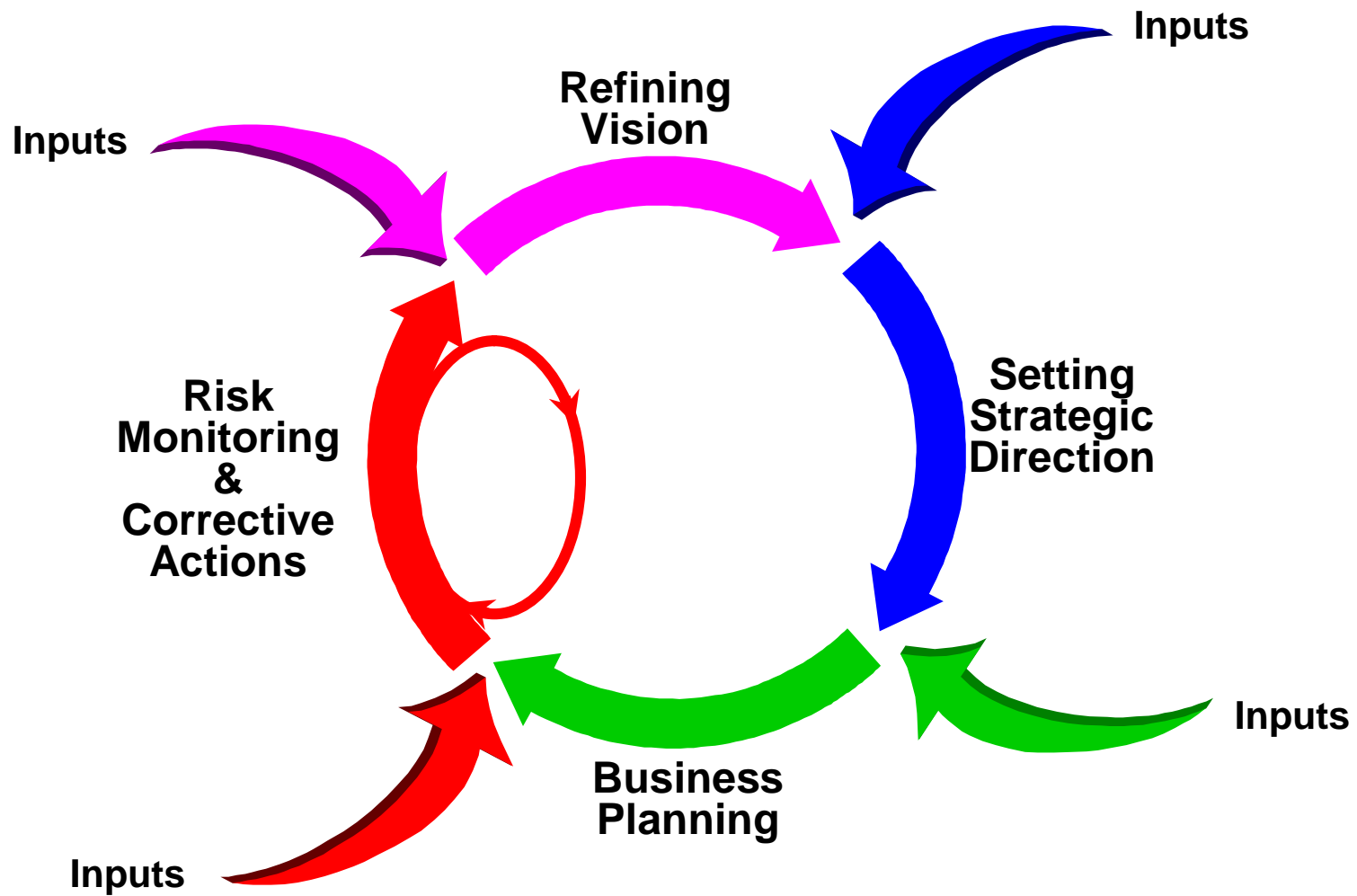
2007-2009 Business Plan Timetable

- **Advisory Committee Consultation – Priorities** Mar 22/06
- **Advisory Committee Consultation – Initiatives** May 24/06
- **Advisory Committee Consultation – Draft Plan** Sept 5/06 ←
- **IESO Board of Directors Review/Approval** Sept 7&22/06
- **File Plan with Minister of Energy** by Oct 2/06
- **Submit Plan to OEB** by Nov 1/06

- **Exercise powers and perform duties assigned under Electricity Act, market rules and licence**
- **Enter agreements to direct operation of transmission systems**
- **Direct and maintain reliability of IESO-controlled grid**
- **Participate in development of standards and criteria regarding reliability of transmission systems**
- **Work with responsible authorities outside Ontario to coordinate with IESO's activities**
- **Collect and provide OPA and public with information regarding near-term adequacy and reliability of the integrated power system**
- **Operate the IESO-administered markets to promote purposes of Electricity Act**

- **Articulate how we intend to fulfill our role & mandate:**
 - **Communicates IESO's objectives and priorities**
 - **Identifies opportunities and challenges over plan period**
 - **Serves as submission to the Minister of Energy and OEB for approval of next year's revenues, expenditures, and fee**
 - **Provides view of estimated IESO resource requirements over next three years**
 - **Establishes approved budgets for next year**
 - **Provides cash flow information to support appropriate debt financing or debt repayments, and capital outlays**

Strategically Managing our Business



- **Delivering reliable electricity supply on demand**
- **Developing Ontario's electricity market through evolution of the IESO-administered markets**
- **Providing value in all our services and products**
- **Responding to the needs and concerns of our stakeholders**
- **Earning the trust of all stakeholders as a just administrator and capable advisor**

- **A future power system (mix) dramatically changed from today in terms of operation**
- **“Bow wave” of employees eligible to retire over planning period**
- **Greater scrutiny of value of ISOs/RTOs**
- **Desire to reduce need for central procurement to backstop industry (better sharing of risk)**
- **Increased expectation of focussed, substantive and well documented analyses for market enhancements**
- **Increasingly complex and sophisticated needs and expectations of market participants**
- **Direct and indirect support for OPA’s IPSP**
- **Increasingly demanding and complex regulatory environment**

- **Achievements in 2006:**
 - Improved the dispatch process
 - Implemented a day-ahead commitment process
 - Implemented an emergency load reduction program
 - Improved inter-tie transaction protocols
 - Reliably managed the high demands for electricity during the summer

- **Plan of Action:**

- (in addition to ongoing work programs)*

- Maintain close working relationship with bodies that impact reliability in Ontario (e.g. OPA, OEB, etc.)
- Maintain and enhance IESO technical abilities
- Ensure sufficient capability to conduct required connection and reliability assessments
- Continue as lead representative and standard setting body for Ontario
- Be an enabler of demand response

- **Achievements in 2006:**
 - Fee reduced by 5 percent plus rebated \$13.6 M
 - Improved productivity in many areas of business
 - Undertook review of appropriateness of the amount of collateral that must be provided by participants
 - Restructured our corporate credit facility
 - Outsourced IT development and maintenance activities where appropriate
 - Active performance management to maintain or improve productivity

- **Plan of Action:**
 - Reduce fee for 2007 by over 10 percent
 - Continue to demonstrate prudent financial management while achieving objects
 - Work with industry to develop more streamlined OEB approvals
 - Complete cost comparison exercise against other ISOs/RTOs
 - Revise and improve staff training programs
 - Maintain and improve governance practices where appropriate
 - Complete review of prudential requirements

- **Achievements in 2006:**
 - Resolved highest priority immediate reliability-based market issues
 - Developed and implemented Day-Ahead Commitment Process
 - Developed & implemented Emergency Load Reduction Program
 - Initiate day-ahead market consultations
 - Investigate implications of locational pricing

- **Plan of Action:**
 - **Development and approval of day-ahead market design**
 - **Examination of reliability/resource adequacy market mechanisms (if required)**
 - **Other market enhancement initiatives that advance the current hybrid market**

- **Achievements in 2006:**
 - Adopted and adhered to stakeholder engagement principles including creation of Stakeholder Advisory Committee and effective stakeholder engagement for key initiatives
 - Developed and implemented Executive Outreach Program
 - Provided effective market information and communications through web and specific new publications
 - Implemented proactive customer relations strategy

- **Plan of Action:**

Increase information and education efforts for all customers to:

- **inform customers of strained system and actions that can be taken**
- **promote understanding of changes needed to ensure long-term reliability**
- **address move to smart meters and time-of-use pricing**
- **enable wholesale electricity customers to better manage their electricity costs**
- **make more accessible the vast amounts of market and system information on our website**
- **effectively manage communications and relationships with customers and other stakeholders**

- **Achievements in 2006:**
 - **Created and issued Ontario Outlook Reports**
 - **Employed market rules ‘due process’ provisions in situations where there were differences of opinion**
 - **Provided formal input to the OPA consultation processes, IPSP support, internal and external integrated project tracking (projects of material impact on reliability) and issue identification and management**

- **Plan of Action:**
 - **Continue to make available information/analyses for decision makers**
 - **Continue to monitor and provide timely advice on the coal replacement program**
 - **Partner with LDC and trade associations to provide information and tools to customers paying wholesale price**
 - **Intervene in all leave-to-construct applications to provide impartial assessments**
 - **Represent and advance IESO and Ontario interests in relevant regulatory proceedings and industry proceedings**
 - **Contribute to and act on Ontario energy policy matters**

The IESO's Financial Objective

- **To demonstrate continued prudent financial management while achieving our objects as outlined in legislation, including supporting the further development of the industry**

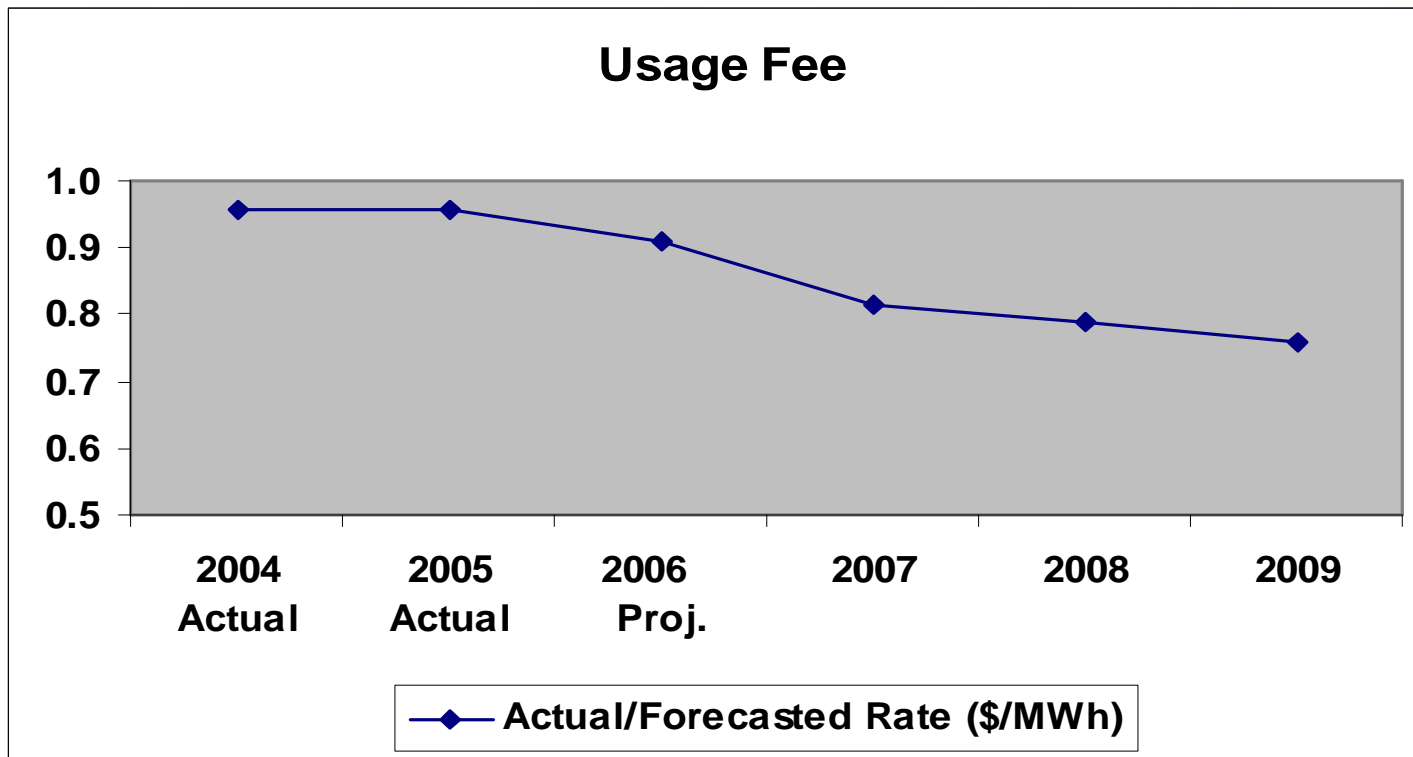
- **Participants provided a high rating of confidence in the IESO's effective management of its financial resources**
- **Total costs are estimated to decrease in 2007, representing the fourth year in a row with reductions**
- **Debts levels will have been significantly reduced:**
 - **\$260 million (70%) of debt repaid since 2002**
 - **further repayments of \$33 million over the planning period (total repayment of approximately 80% since 2002)**
- **In 2006,**
 - **Usage fee was reduced by a nickel in 2006, to \$0.909/MWh**
 - **IESO rebated \$13.6 million of usage fees to customers**
- **Usage fee is budgeted to be reduced in 2007 by over 10%, to \$0.815/MWh**
- **In 2007, IESO is projecting to rebate \$11.9 million of usage fees to customers**
- **Outlook is positive to maintain or further reduce the usage fee in 2008 and 2009**

2006 Comparison to Budget

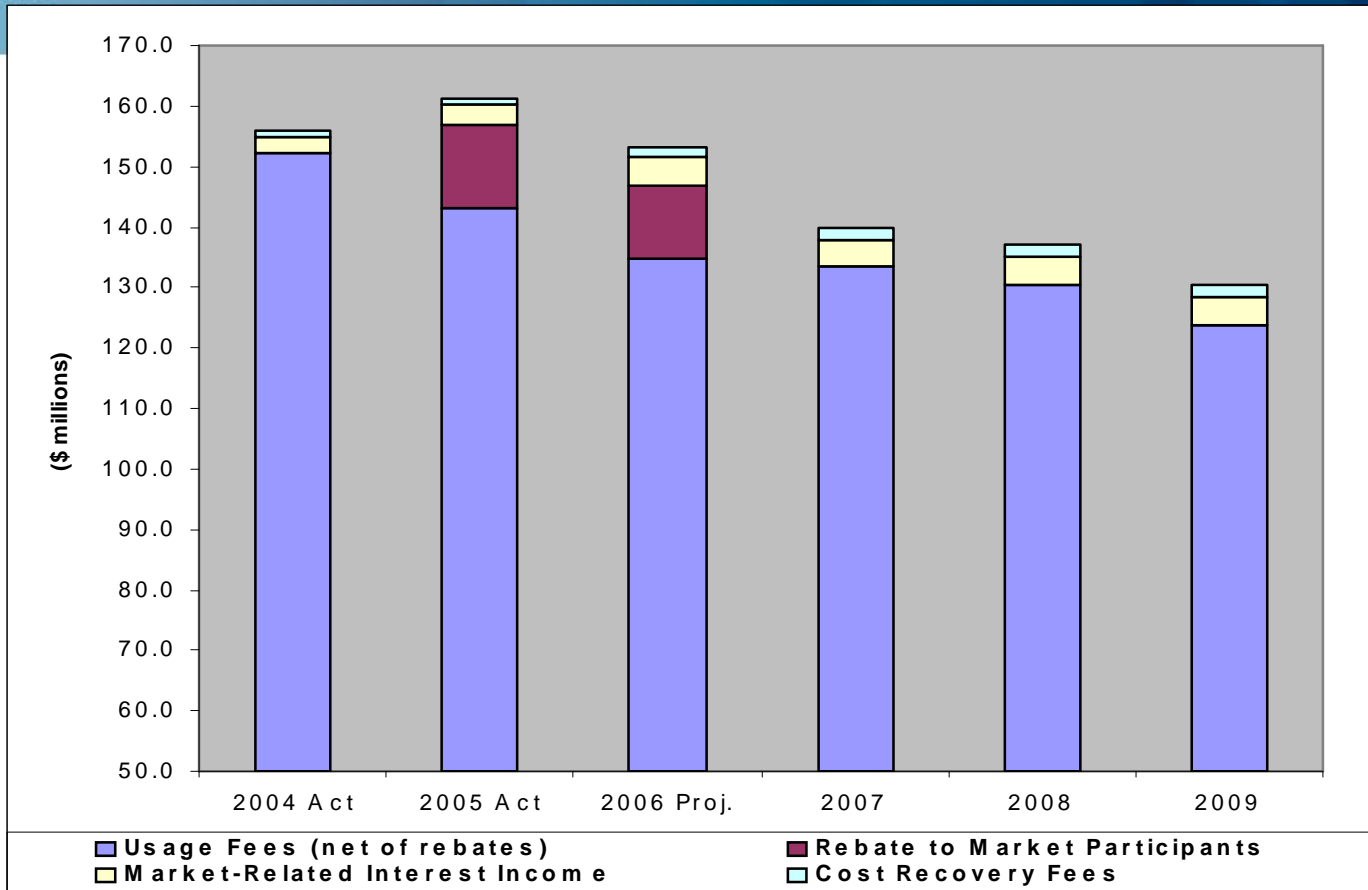
(\$MILLIONS)	2006 Projection	2006 Budget	Variance
Revenues			
IESO Fees	146.8	144.0	2.8
Cost Recovery Fees	1.7	1.7	0.0
Market-related Interest Income	4.6	2.1	2.5
Total Revenues	153.1	147.8	5.3
Costs			
OM&A	84.8	85.8	1.0
OM&A Pension Expense	17.4	16.1	(1.3)
Amortization	31.9	37.8	5.9
Interest	7.1	8.1	1.0
Total Operating Costs	141.2	147.8	6.6
Operating Surplus prior to rebates	11.9	0.0	11.9
Rebates to market participants	(11.9)	0.0	(11.9)
Operating Surplus for the period	0.0	0.0	0.0

The projected operating surplus of \$11.9 million is mainly attributable to:

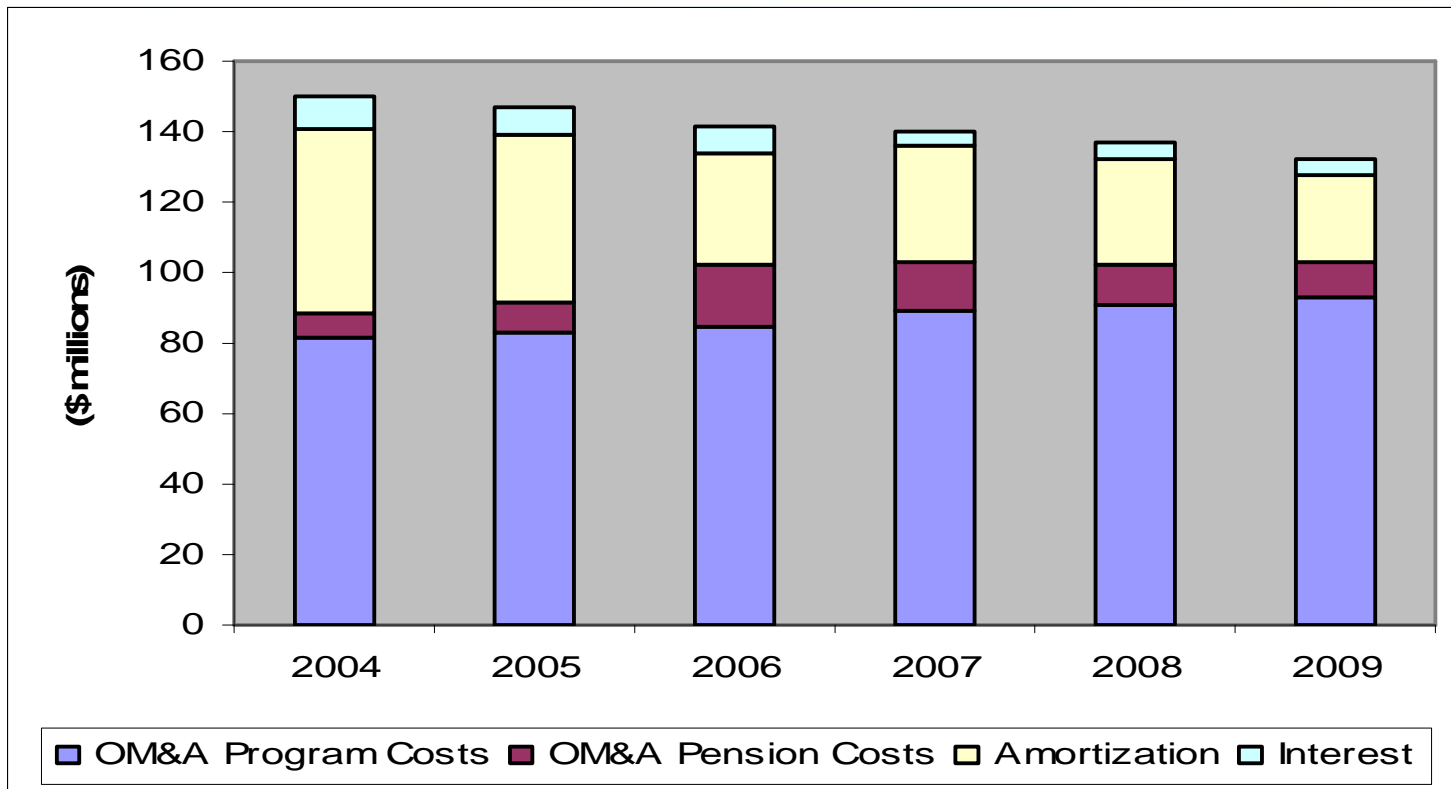
- higher than planned revenues resulting from higher forecasted volumes of exports;
- higher than planned market-related interest resulting from higher volumes of prepayments and higher interest rates; and
- lower than planned amortization which was due to lower than planned capital spending and the revision in service life of the Energy Management System/Market Interface System (EMS/MIS) asset.



	2004 Actual	2005 Actual	2006 Proj	2007	2008	2009
Actual/Forecasted Rate (\$/MWh)	0.959	0.959	0.909	0.815	0.790	0.745

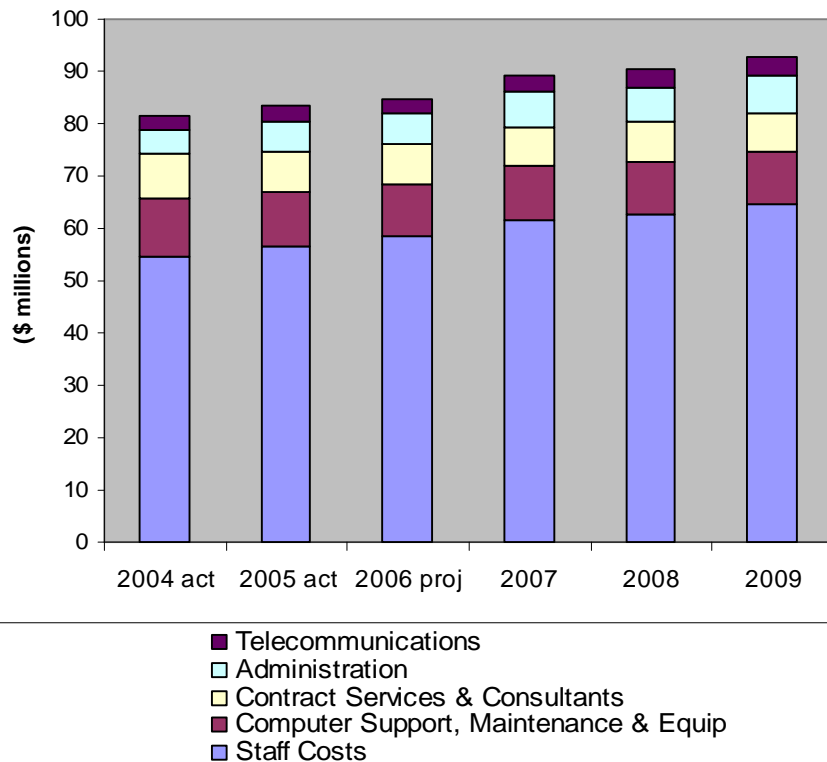


	2004 Act	2005 Act	2006 Proj.	2007	2008	2009
Usage Fees (net of rebates)	152.4	143.3	134.9	133.3	130.5	123.9
Rebate to Market Participants	0.0	13.6	11.9	0.0	0.0	0.0
Market-Related Interest Income	2.5	3.5	4.6	4.6	4.8	4.4
Cost Recovery Fees	0.9	0.9	1.7	2.0	2.0	2.0
Total Revenues	155.8	161.3	153.1	139.9	137.3	130.3



(\$millions)	2004 Act	2005 Act	2006 Proj	2007	2008	2009
OM&A Program Costs	81.4	83.3	84.8	89.4	90.5	92.7
OM&A Pension Costs	7.4	8.3	17.4	13.8	11.9	10.5
Amortization	52.0	47.4	31.9	32.9	29.6	24.3
Interest	9.5	7.6	7.1	3.9	5.2	2.8
Total Expenses	150.3	146.6	141.2	140.0	137.2	130.3

OM&A Program Costs



Staff Costs include remuneration, benefits, staff expenses, training costs but exclude pension expense.

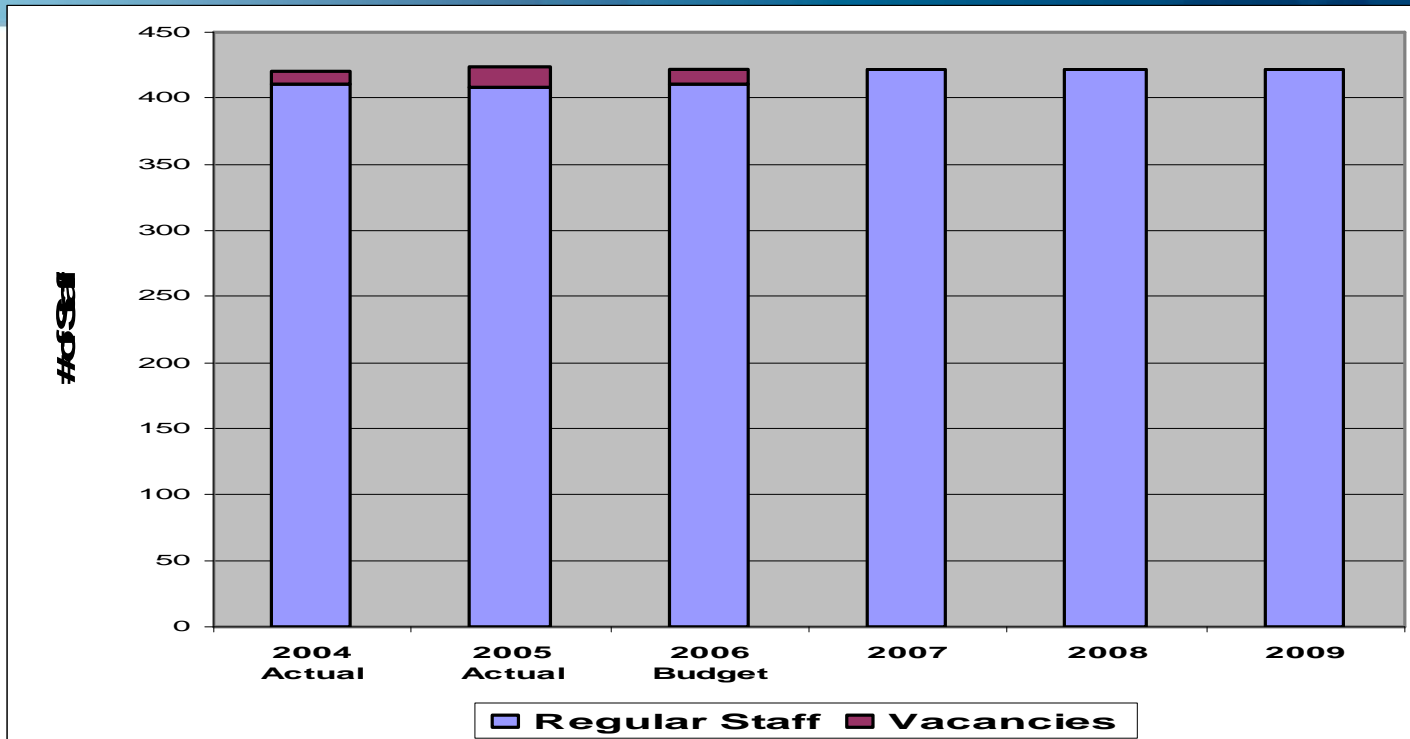
Computer support, maintenance and equipment costs include annual support and maintenance fees for the market and operating systems, annual license renewals, as well as computer leases and consumables.

Contract services and consultants include recurring annual expenses such as insurance, remuneration of Board, Panel and Committee members, audit and accounting fees, legal services, human resources services, communication products & services, as well as government relations functions.

Administration costs include membership fees, rent, utilities, building services and property taxes

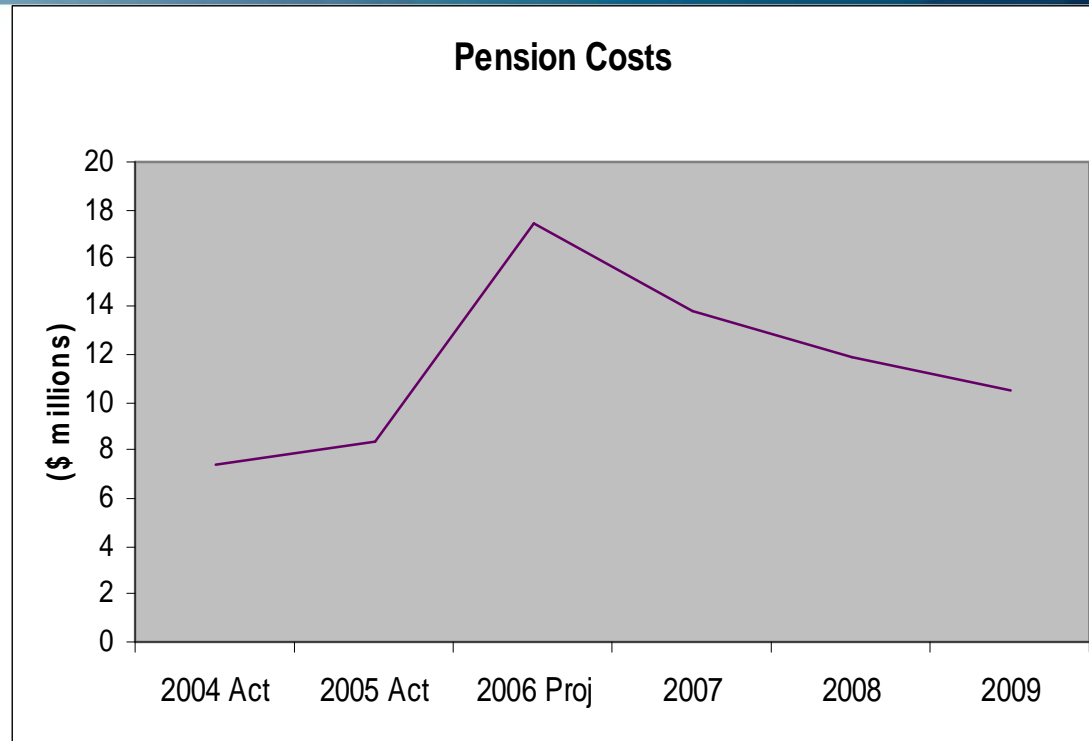
(\$Millions)	2004 Actual	2005 Actual	2006 Projection	2007	2008	2009
Staff Costs	54.8	56.7	58.4	61.5	62.6	64.8
Computer Support, Maintenance & Equip	10.8	10.4	10.2	10.3	10.1	9.8
Contract Services & Consultants	8.5	7.7	7.7	7.6	7.5	7.4
Administration	4.9	5.7	5.5	6.7	6.9	7.2
Telecommunications	2.4	2.8	3.0	3.3	3.4	3.5
Total Program Costs	81.4	83.3	84.8	89.4	90.5	92.7

OM&A Program Costs - Staff Levels



	2004 Actual	2005 Actual	2006 Budget	2007	2008	2009
Regular Staff	410	408	410	422	422	422
Vacancies	11	16	12	0	0	0
Approved Staff Level	421	424	422	422	422	422

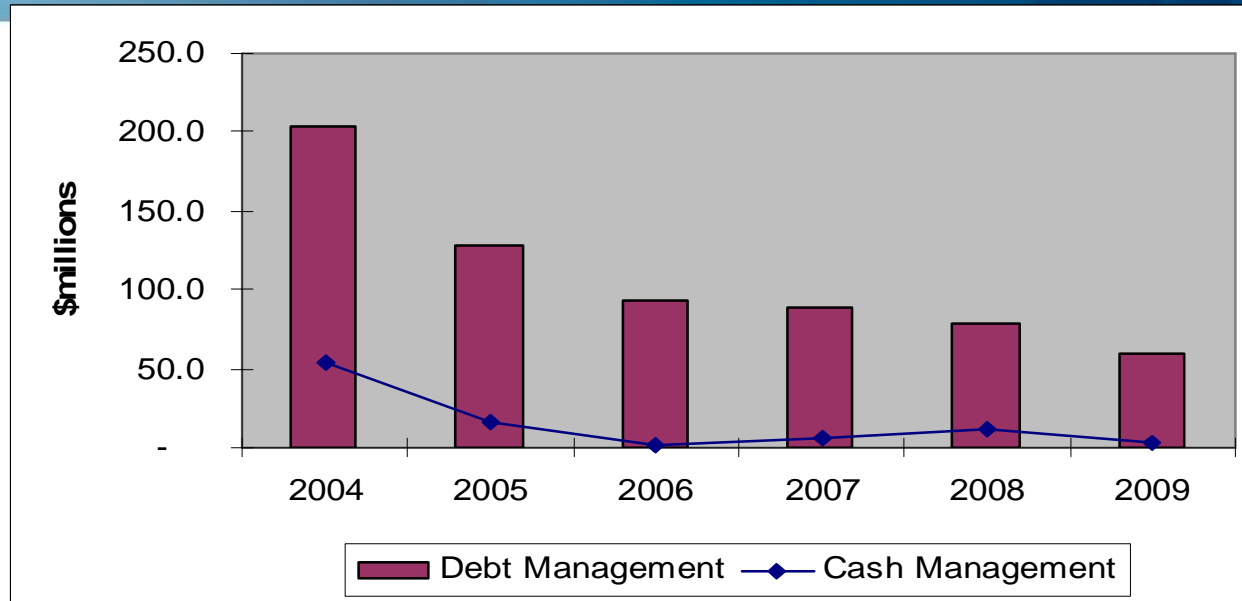
The IESO continues to be a staff-intensive business. Developments within the sector continue to drive increased work in numerous areas. These include increased regulatory activity; tremendous infrastructure changes that drive ongoing analysis and assessments; introduction of new participants into the IESO Administered Markets; and overall governance demands related to the power system, the corporation and the IESO's pension plan.



OM&A Pension Costs (\$Millions)	2004 Act	2005 Act	2006 Proj	2007	2008	2009
Total OM&A Pension Costs	7.4	8.3	17.4	13.8	11.9	10.5

The projected 2006 OM&A pension expense is higher than planned due to a continued decline in the discount rate. As long-term interest rates begin to show some recovery in 2006, the result is a lower pension expense for 2007. Looking at 2008 and 2009, based on no change in long-term discount rates and a plan return of 7% per annum, the pension expense is expected to decrease modestly each year, as fewer prior year experience losses are recognized and the large positive equity investment returns of recent years are recognized in the smoothed asset values.

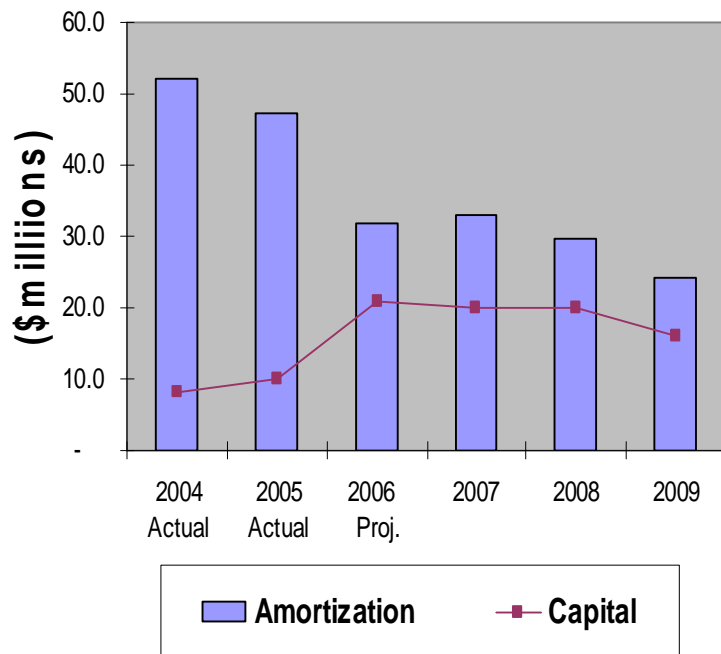
Debt, Cash Management & Net Interest



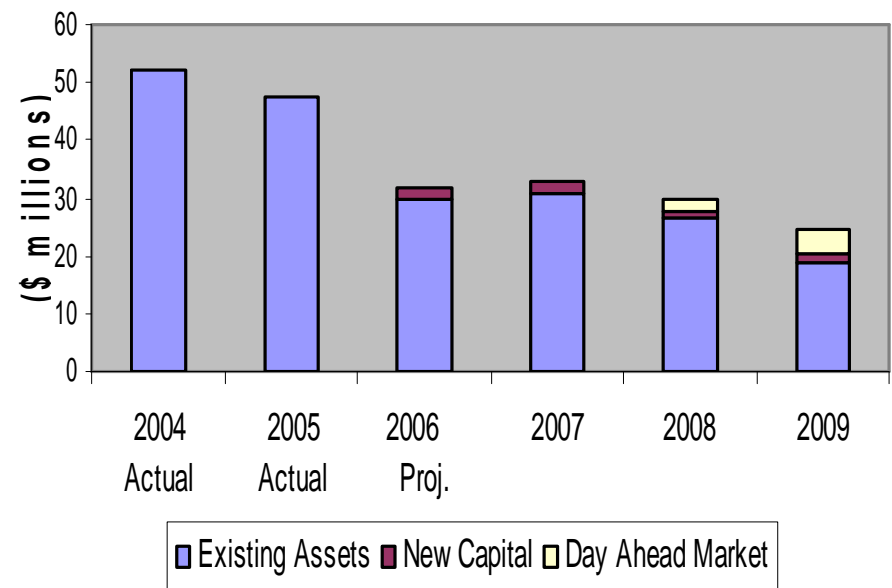
	2004	2005	2006	2007	2008	2009
(\$Millions)	Actual	Actual	Projection			
Interest OEFC Debt	6.2	6.2	6.2	6.2	6.2	2.1
Interest OFA Debt/LOC	3.9	2.9	1.6	0.7	0.4	2.0
Capitalized Interest	-	-	-	(0.3)	(0.3)	-
Foreign Exchange & Financi	0.5	0.1	0.2	0.2	0.2	0.2
Investment Income	(1.1)	(1.6)	(0.9)	(2.9)	(1.3)	(1.5)
Net Interest Expense	9.5	7.6	7.1	3.9	5.2	2.8

- By the end of 2006, \$260 million (over 70%) of debt load will have been repaid since 2002;
- A plan to repay a further \$33 million over the planning period; and
- Refinancing of provincial debt with a less expensive and more flexible credit facility

Capital & Amortization



Amortization



Over the planning period, amortization is expected to decrease by \$7.6 million from the projected 2006 level. This reduction reflects the IESO's success in using some information system infrastructure longer than originally planned and lower costs for replacement infrastructure. Capital costs of \$56 million are forecasted over the planning period for business and tool improvements and \$16 million is estimated for a day-ahead market.

(\$ millions)	2006 Projected	2007 Budget	2008 Plan	2009 Plan
Day-Ahead Commitment Process	2.7	-	-	-
Day-Ahead Market	-	8.0	8.0	-
Energy Management System/ Market Information System Upgrade	3.4	3.2	-	-
UNIX Server Infrastructure Refresh	2.2	1.5	0.5	-
Application Changes/ Vendor Change Requests	0.4	-	-	-
Windows Refresh Program Stage 2 & 3	2.0	-	-	-
Backup Operating Centre Relocation	1.2	1.3	-	-
Facility Outage Management System	1.1	0.3	-	-
Central Alarm Management System	1.0	-	-	-
Backup Infrastructure Enhancement	1.3	-	-	-
Windows Refresh Program Stage 4 & 5	1.0	2.5	0.8	-
Customer Information System	-	-	0.3	-
Other Capital Initiatives	4.7	3.2	10.4	16.0
Total Capital	21.0	20.0	20.0	16.0

2007 – Comparison to Last Year's Plan

(\$Millions)	2007 Budget in the 2007-2009 Business Plan	2007 Forecast in Last Year's Business Plan	Variance(%)
Total Revenues	139.9	149.7	(6.5%)
Total Costs	140.0	151.8	7.8%
Operating Surplus for the period	(0.1)	(2.1)	
Usage Fee (\$/MWh)	0.815	0.909	(10.3%)

- Revenues are lower in the current business plan due to a lower usage fee
- Amortization is lower due to lower than planned capital expenditures and a change in service life for the EMS/MIS
- Interest expense is lower due to lower debt levels resulting from early repayment, lower interest costs due to restructuring of some debt, and higher investment income due to a change in GAAP
- Pension expense is lower as the discount rate (i.e. high-quality corporate long-term bonds rate) have increased slightly and investment returns have been higher than the long-term assumed rate of return 31

Actual and Estimated Results

Income Statement (\$Millions)

	2004 Actual	2005 Actual	2006 Projected	2007 Budget	2008 Plan	2009 Plan
Revenues						
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Amortization	52.0	47.4	31.9	32.9	29.6	24.3
Net Interest	9.5	7.6	7.1	3.9	5.2	2.8
Total Operating Costs	150.3	146.6	141.2	140.0	137.2	130.3
Operating Surplus/(Deficit) prior to rebates	5.5	14.7	11.9	(0.1)	0.1	0.0
Rebates to Market Participants	0.0	(13.6)	(11.9)	0.0	0.0	0.0
Operating Surplus/(Deficit) for the period	5.5	1.1	0.0	(0.1)	0.1	0.0
Accumulated Surplus	18.9	5.0	5.0	4.9	5.0	5.0
Actual/Forecasted Rate (\$/MWh)	0.959	0.959	0.909	0.815	0.790	0.745

A Summary of What You Have Heard

- **2006 costs have been successfully managed**
- **Debt has been and will continue to be aggressively repaid**
- **Participants will receive a refund of over 8% of the IESO usage fees they will have paid in 2006**
- **The IESO is going to lower its fee by over 10% in 2007**
- **The outlook is that the fee would be further reduced in 2008 and/or 2009**
- **Based on the refund and the reduced fees, market participants will experience an estimated savings on IESO usage fees of \$96 million - \$22 million in 2006 and a further \$74 million over the planning period**
- **Deliver on core responsibilities and objectives in the face of significant challenges while managing their impact on consumers**

Send feedback to :

stakeholder.engagement@ieso.ca