

IESO Stakeholder Advisory Committee (SAC)
Minutes of Meeting
August 22, 2007, 9:30 am
Toronto Congress Centre

Advisory Committee Members in Attendance:

Mr. Brian Bentz, Chair (representing Distributors)
Mr. Bruce Campbell (representing IESO)
Mr. Steve Dorey (representing Transmitters)
Ms. Julie Girvan (representing Residential Consumers)
Mr. Richard Horrobin (representing Generators)
Mr. Mike Humphries (representing Embedded Industrial Consumers)
Mr. Paul McMillan (representing Marketers/Brokers)
Mr. Doug Reeves (representing Distributors)
Mr. Chuck Stradling (representing Commercial Consumers)
Mr. Daniel Whyte (representing Generators)

Advisory Committee Members Absent:

Mr. Bruce Lourie (representing Environmental)
Mr. Matthew Picardi (representing Marketers/Brokers)
Mr. Colin Osborne (representing Wholesale Consumer Market Participants)

Presenters:

Mr. Peter Sergejewich
Mr. Neil Campbell
Dr. Brian Rivard
Mr. Ken Kozlik
Mr. Scott Travers

IESO Board Members in Attendance:

Mr. Rudy G. Riedl (Interim Chair)
Ms. Roberta Brown
Mr. Dave Cassivi
Mr. James Hinds
Mr. Paul Murphy
Mr. Howard Shearer
Mr. John Wiersma

Introduction – Brian Bentz

Mr. Bentz welcomed everyone and thanked the Board of Directors for their attendance.

He commented that the IESO-controlled grid performed well over the summer notwithstanding various supply issues and noted the contribution of demand management initiatives.

Agenda Item No. 2: Feedback from June 28th, 2007 IESO Board Meeting

Mr. Bentz and Mr. Humphries attended the last Board meeting on behalf of the Committee. The briefing note from the SAC to the Board can be found at:

http://www.ieso.ca/imoweb/consult/stakeholder_ac_meetings.asp

It was noted that the customer survey was weighted to distributors and direct customers; it was suggested that in future the survey should be broadened to include embedded consumers.

The cost benefit analysis and in particular the day-ahead market initiative was discussed with the Board. It was suggested that the government should be advised of this initiative and an assessment made of its appetite to proceeding. Consumers take reliability for granted such that the acid test for them is the price impact. The IESO needs to get consumers involved in a broader education programme regarding the benefits of a day-ahead market.

The effectiveness of the SAC to provide advice – SAC is not a decision making tribunal nor a substitute for the Board - was discussed and it was agreed that in general the current process was effective. The Board needs to ensure they get transparent, unfiltered information and frank input from the SAC.

Agenda Item No. 3: Senior Management update – Bruce Campbell

(a) Review of Action Items from June 6 SAC meeting

http://www.ieso.ca/imoweb/pubs/consult/sac/sac-20070822_Action_Items.pdf

The IESO has spoken with Hydro One about action item one and further discussions are being scheduled. The other listed action items have been completed.

(b) Agency Review Panel

The report of the Agency Review was released on June 27 and can be found on the Ministry of Energy's web site at:

<http://www.energy.gov.on.ca/english/pdf/electricity/Agency%20Review%20Panel%20Phase%201%20Report.pdf> along with the news release at:

http://www.energy.gov.on.ca/index.cfm?fuseaction=english.news&news_id=158&body=yes

(c) Market Rule Amendment – Ramp Rate Multiplier

The change to the ramp rate multiplier will be implemented on September 12th. It is a compliment to all of the parties involved that a way was found to move forward. The IESO will

review the effect of the ramp rate change and determine whether the forecast system benefits are realized. The IESO communication announcing the implementation date can be found at: <http://www.ieso.ca/imoweb/news/newsItem.asp?newsItemID=3603>.

(d) Smart Meter Implementation

A recent regulation appointed the IESO as the Smart Meter Entity (SME) and in that role the IESO will continue to be responsible for program implementation and, at least for some period, its operation. As a result of this appointment the IESO will initiate a licence application to the OEB as well as related market rule changes to implement the associated rate. Mr. Campbell re-enforced that financially the activities of the Smart Metering Entity will be completely segregated and separate from wholesale market operations.

A briefing note can be found at: http://www.ieso.ca/imoweb/pubs/consult/sac/sac-20070822-Item3_Update_on_SMP.pdf

In response to Mr. Bentz, Mr. Campbell clarified that the smart meter entity is not expected to be a separate legal entity.

Mr. McMillan enquired about the budget and costs of the program and suggested that further disclosure would be appropriate. Mr. Campbell responded that the business plan focused on the IESO's existing business and that the IESO recognized that it is important to be transparent about the costs of the program. Mr. McMillan asked about the costs benefit analysis with respect to the Smart Metering initiative and Mr. Campbell replied that the IESO was implementing the project as efficiently as possible but that in implementing a Government policy decision the IESO had not undertaken a cost benefit analysis.

Mr. Campbell, in response to Mr. Reeves, confirmed that the smart metering entity will go before the OEB to set its rate which will be part of the regulatory charge on the customer's bill. Ms. Girvan asked when the project would be functional. Mr. Campbell replied that testing would occur into the fall and that it would be a policy decision as to when time of use would be implemented.

Mr. Bentz noted that it would be administratively very challenging for distributors if the Government allowed customers to choose when they participated vs. implementing it at the same time.

(e) Consumer Forum

A briefing note can be found at: http://www.ieso.ca/imoweb/pubs/consult/sac/sac-20070822-Item3_CF.pdf

Mr. Campbell said that in conjunction with the consumer forum a stakeholder engagement plan for reviewing stakeholder engagement principles and processes has been published for comment.

Mr. Horrobin questioned how the IESO would communicate the content of smaller meetings that are closed to other stakeholders. Mr. Campbell responded that the IESO will, consistent with the approach taken on the consultations for day-ahead mechanisms, document and publish the input received so that everyone can have the benefit of it.

Agenda Item No. 4: SE-35 2008-2010 Business Plan - Peter Sergejewich

The presentation by Mr. Sergejewich can be found at:

http://www.ieso.ca/imoweb/pubs/consult/sac/sac-20070822_BP.pdf

A question was raised by Mr. Reeves as to what the drivers were for reducing the fee over the last few years. Mr. Sergejewich replied that it was managing costs, cutting activities no longer needed, managing depreciation, making sure that the IESO established appropriate service lives for capital, and declining interest rates.

In relation to capital expenditure, Mr. Bentz asked if the IESO needed to constantly invest in new systems or whether it was incremental costs over the life of the asset. Mr. Sergejewich responded that in terms of significant investment it was a one-time expenditure to set up the market, but that each system has a certain life period in which servers and computers require replacement.

Mr. Whyte asked if the downward rate trend could be put in perspective. Mr. Sergejewich replied that the rates in PJM and MISO are lower and New York was higher, but it depends on the amount of load. The IESO is undertaking a benchmarking review using the new FERC uniform system of accounts. Mr. Campbell added the IESO is publishing the history of IESO costs mapped against the uniform system of accounts for FERC. He also commented that the IESO's CFO, Mr. Gary Sherkey, has been very active with the other ISO's in leading this effort to try and make use of these numbers in a good, practical way for the business. Mr. Campbell said that the differences in markets, products, settlements and business make comparisons difficult.

Mr. Dorey asked about the "other" category of capital expenditures. Mr. Sergejewich replied it reflected a number of smaller projects but as you move further out it was difficult to allocate into specific projects.

Mr. McMillan asked how the IESO will deal with the large number of pending staff retirements. Mr. Sergejewich replied that the IESO is no different from others in the electricity industry with pending retirements and has established a leading co-operative education program with universities.

Mr. McMillan enquired whether the staffing level of 422 should be going down given declining volumes, or should it be higher given the risk of retiring employees. Mr. Sergejewich said that the IESO reviews staffing levels through the business planning process. In relation to volume, though the staff level may be reduced the volume of work associated with it has not been reduced.

Mr McMillan commented that given the increased volume of work in system impact assessments and connections, the IESO should consider staff increases or re-allocation of staff, particularly in a market environment where the costs for large infrastructure projects increase monthly. Mr. Sergejewich and Mr. Campbell said that the IESO continually assesses appropriate staff levels and have specifically considered the need for infrastructure renewal during the business planning process.

Mr. Butters (APPo) commented that the IESO's vision of a vibrant Ontario economy is more appropriate for the Ministry of Economic Development or the Ministry of Energy, and not the IESO. The IESO should have a vision regarding a fair, efficient, openly competitive market that would lead to a vibrant economy.

Mr Horrobin asked for elaboration about the IESO's goals for the year and what other initiatives or steps were contemplated, including the introduction of Locational Marginal Pricing (LMP). The IESO is co-ordinating its activities to support OPA initiatives such as the establishment of load-serving entities, and in relation to environmental attributes. Mr. Campbell added that the IESO is working to ensure that the data it collects for analysis of LMP is improved, but the introduction of LMP is a matter of policy and the Government does not anticipate introducing this in the near future.

In response to Ms. Girvan it was confirmed that the forecast operating costs of a day-ahead mechanism would not have a significant impact on the IESO's operating costs.

Mr. Campbell also explained that the only work on a Resource Adequacy Market or LMP is incidental to the IESO's work on the quality of data.

Mr. Bentz asked if studies have been done for cost allocation studies or transfer pricing studies in terms of allocating some overhead costs between the core ISO business and the smart meter business, and have those costs been reviewed by the OEB in the last IESO rate submission. It was mentioned that this was not in the last rate submission to the OEB and that smart metering was related to a project and quite separate. Going forward, the IESO will track all cost separately.

Mr. Bentz noted that the use of a standard charge per MWh exposed the IESO to a volume risk in relation to forecast consumption and conservation. He enquired whether a fixed charge per customer had ever been looked at. When the per MWh fee structure was established,

alternative rate structures were considered and it has not been a major issue since. Moreover, in general, all ISO's use a similar fee structure.

In response to a question from Mr. Kerr (Coral), it was clarified that following discussions over the last year the approach to market evolution was an incremental approach on an issue by issue basis. In particular, the IESO has laid out a plan for day-ahead development, coordinates work with the OPA's Load Serving Entities (LSE) initiative, tracks its responses to MSP recommendations, and works on market price and trading issues. Mr. McMillan said that it would be useful to link the goals and objectives of the business plan to corporate performance measures.

Mr. Lapierre (Brookfield) explained that from his perspective the development of the Ontario market was lagging other markets. The effect of falling behind in market development will have an adverse effect in the future and will impact Ontario's ability to secure sufficient resources. Mr. Campbell responded that Ontario is unique and pressures are different from other jurisdictions. Many markets and ISOs face their own issues and their approaches to various issues have not been universally accepted.

Agenda Item No. 5: SE-36 Corporate Performance Measures

Mr. Sergejewich said that proposed Corporate Performance will be discussed at the next SAC meeting.

Materials were posted for stakeholder input which can be found at:
http://www.ieso.ca/imoweb/pubs/consult/sac/sac-20070822_CPM.pdf

Agenda Item No. 6: Market Surveillance Panel Report – Neil Campbell, MSP Member

The presentation by Mr. Neil Campbell can be found at:
http://www.ieso.ca/imoweb/pubs/consult/sac/sac-20070822-6_SAC_briefing_deck_v1.pdf

The complete report can be found on the Ontario Energy Board's web site at:
http://www.oeb.gov.on.ca/documents/msp/msp_report_20070810.pdf

Mr. Whyte asked if the Panel had an order of magnitude in mind for the net inter-tie schedule limit (NISL); Mr. Neil Campbell said they had no particular amount in mind but it should be as high as the IESO considers consistent with safe and reliable operation. The report did not contemplate whether the limit should be determined through dynamic or static modelling.

Mr. Bentz asked if the IESO should take stopgap measures to reduce price volatility. Mr. Neil Campbell replied that the panel analyzed the market from an efficiency perspective on the market that has been designed, commenting on how it could be improved.

Mr. Bentz asked if there would be a review of the DACP with respect to import offer guarantees in off peak hours. Mr. Bruce Campbell replied the review is scheduled for November.

Agenda Item No. 7: Cost Benefit Analysis – Dr. Brian Rivard

Dr. Rivard's presentation can be found at:

http://www.ieso.ca/imoweb/pubs/consult/sac/sac20070822-Item7_CBA.pdf

Where a cost input cannot be passed on to the ultimate consumer - for example where the product is a commodity - the impact of the cost of the input may be aggregated within the producer side of a cost benefit analysis.

Mr. Whyte expressed the generators' concern over the potential use of weighting of impacts in a cost benefit analysis as the use of a weighting will determine the outcome of the analysis.

Mr. Campbell said that to date the IESO has not used any weighting and that he expected that if the IESO were to employ weighting it would be done in a transparent manner as part of a sensitivity analysis. The starting point of any such analysis will be un-weighted numbers.

Mr. Rothman (Navigant) commented that conducting a cost benefit analysis inherently requires one to apply judgement; what you are looking for are conclusions that are robust with a number of sensitivities as to what is included or not.

Mr. Humphries mentioned that many initiatives are steps towards an end and incremental individual initiatives may not deliver net benefits. Mr. Campbell said that a cost benefit analysis is not the end of decision making, but one important input into the process. The assessment will need to consider an initiative on its own as well as in the context of what else it enables.

Mr. Dorey added that this analysis properly separates the efficiency discussion from the equity discussion.

Agenda Item No. 8: Day-Ahead Market – Ken Kozlik and Scott Travers

The presentation on Day Ahead Mechanisms can be found at:

http://www.ieso.ca/imoweb/pubs/consult/sac/sac-20070822-8_DAM.pdf

The Discussion Paper on Day-Ahead Mechanisms is available at:

http://www.ieso.ca/imoweb/pubs/consult/se21/se21-20070810_IESO_Staff_Report.pdf

Mr. McMillan asked if the Day-Ahead Commitment Process (DACP) was an alternative to the DAM proposal. Mr. Kozlik replied that there are a variety of options available but effectively if you back off from market then DACP will continue. Mr. Kozlik confirmed that following more detailed design there would be a further cost benefit analysis and decision. One of the

questions to be answered, with the benefit of stakeholder input, is whether there is a continuing need for the DACP.

Mr. Kerr asked whether units selected under 24 hour optimization can set price. Mr. Kozlik said that this is a design question that would need to be developed with stakeholder input, based on the design chosen.

Mr. Travers confirmed that Option 1 would not provide any level of price guarantee, and that Option 2 could be managed by external third parties.

Mr. Heaton (OPG) asked if the IESO would be a proxy for the load under Option 2 and it was explained that this was not considered under Option 2 but it was open for discussion under Option 3. Under Option 3 it was contemplated that LSEs would be given the option of whether they wanted to participate in the day-ahead mechanism for their retail load.

Mr. Bentz asked what percentage of the LSE load cleared day ahead and it was understood that the majority of the load would clear in the day-ahead market.

Mr. Heaton voiced the concern that gas generators will continue to be exposed to real time dispatch volatility which will not be addressed by minimum run guarantees.

A number of clarifications were provided regarding the two settlement process within the day ahead and real time markets and the impact of smoothing out price volatility.

Mr. McMillan questioned whether the various options would have a different budget impact than that reported in the business plan. Based on prior experience, Mr. Kozlik responded that given the continuation of the real time market and the more limited scope of work, the costs would be significantly less than those forecast in 2003 to 2004.

Mr. Kozlik said that the cost benefit analysis for the options presented will be available, at a high level, for the November stakeholder meeting.

Mr. Dorey suggested that additional time may be required in order for stakeholders to comment on the IESO's cost benefit analysis prior to the November meeting.

Mr. Heaton added that stakeholders need time to understand the details of how the proposed DAM options would operate. Mr. Kozlik recognized that the level of commitment to an option would be dependent upon the level of detail provided; in the absence of detail the level of commitment given by stakeholders would be low. An appropriate level of detail must be developed prior to selecting amongst the options presented.

Mr. Kerr commented that Option 1 and 2 are throwaway's and perhaps we should be taking the big steps instead of smaller incremental steps. He also suggested that Options 4 and 5 still need

to be considered. Mr. Kozlik cautioned that the current environment - which did not provide for LMP - did not support such big evolutionary steps, but was more conducive to incremental market evolution.

New Business

Mr. Radan (Aquilon Power) stated that the Ontario market is not evolving as quickly as it should as compared to other markets and we should all be asking why. Mr. Radan had brought forward another issue relating to wheeled transactions which will be addressed outside of the SAC at separate meetings and working groups.

Wrap up

Members were invited to the next Board meeting on September 7th and reminded that the next SAC meeting is on October 30th. The Committee was also reminded that today is the due date for nominations to the SAC membership.

The meeting was adjourned.