

IESO Stakeholder Advisory Committee

TO: IESO BOARD OF DIRECTORS

DATE: APRIL 14, 2011

FROM: STAKEHOLDER ADVISORY COMMITTEE

SUBJECT: BRIEFING NOTE

The purpose of this memorandum is to update the IESO Board of Directors on the highlights of the discussion from the March 2, 2011 Stakeholder Advisory Committee meeting. All members of the Stakeholder Advisory Committee were in attendance at the session with the exception of Ms. Adèle Malo, (Marketers/Brokers) and Ms. Rosemarie Leclair (Distributors).

The IESO Board Members in attendance were:

Mr. Tim O'Neill – Chair
Mr. David Cassivi
Ms. Angela Ferrante
Mr. Paul Murphy
Mr. Howard Shearer
Mr. John Wiersma

As always, the Committee appreciate the attendance of Board members at the Committee meetings.

Agenda Item No. 2: Senior Management Update

Mr. Campbell provided updates and briefing notes on a number of items that are posted. In addition further details on the discussion can be found in the meeting minutes.

Surplus Baseload Generation

Mr. Campbell noted that the situation regarding surplus baseload generation (SBG) was fluid and so the Senior Management decision was to provide an update directly to the Committee. He advised the Committee that the IESO is considering options for dealing with negative priced exports including market rule changes to eliminate payments on exports during negative priced hours.

Mr. Martin asked how the market rule change would impact the SBG situation and the volume of exports during times of extreme negative pricing. Mr. Campbell responded that if export volumes during these times are diminished, then it can increase the need for manoeuvres to manage SBG, and the IESO does recognize that this is a possible impact. He added that negative pricing for exports in tandem with the requirement to pay for some types of power production is difficult to justify.

Mr. Horrobin asked for the analytical work on what impact the rule change would likely have during times of SBG, would a rule change be implemented only when we fully understand its impacts. He also expressed a desire for a determination of whether the coping strategies that we do have in place are adequate under the circumstances. Mr. Campbell responded that there have been discussions regarding the potential rule change and the feedback has been that while it will exacerbate SBG to some extent, the rule change itself will not have a huge impact. The conversations that have taken place have also reinforced the need for having the ability to dispatch generation resources that are not currently dispatchable.

Mr. Horrobin asked when the rule might be implemented, since we are approaching freshet and what the timing might be for addressing the issue of dispatch for Renewable Energy Standard generation resources. Mr. Campbell responded that if there was acceptance of the rule change it could be implemented more quickly than the dispatch issue, since the market rule change is under the control of the IESO, while the dispatch issue has been under discussion for some time and still needs to be resolved.

Mr. Martin commented that markets go negative from time to time in some adjacent jurisdictions and in other markets around the world, and that in some there are capacity markets in place, so that in essence they're paying generators while, at the same time, allowing exports to flow out of their markets negatively priced. He asked if any of Ontario's trading partners are moving to cap settlements at zero. Mr. Campbell responded that the IESO has talked with the neighbouring jurisdictions and they seem neutral about the rule change, although he is not aware of another jurisdiction that has this in place other than New England. However, Mr. Campbell said, New England appears to be planning a move away from the zero cap on settlements.

Market Road Map

Mr. Campbell responded to Mr. Witjes question that the anticipated schedule is to have a three-stage process to identify issues, to deal with options for addressing those issues, and then to make recommendations. It is expected that the Stakeholder Advisory Committee will be consulted at the conclusion of each of those stages.

Agenda Item No. 3: Renewable Integration (Paul Murphy)

Mr. Murphy concluded his presentation with the observation that Ontario is currently in the midst of a significant transformation, even bigger than the addition of 14,000 MW of nuclear generation over the past 20 years. Today, Ontario is adding 10,700 MW of variable renewable generation over the space of 10 years, from 2008 to 2018. He encouraged the Committee to join in shaping the preparation for this fundamental change and recognized that some members might feel that the IESO is moving quite quickly. Mr. Murphy stressed that this is due to the serious and immediate challenge presented by renewable integration.

Mr. Wilcox asked about microFIT and FIT projects that are connected to very specific assets and how these assets are considered in forecasting. Mr. Murphy replied that the IESO currently only requires distributors to notify the IESO if there is going to be an outage affecting more than 20 MW of generation. With the growth in the amount of generation connected to distributors, there is the potential for more system impact from outages. Mr. Murphy said that he had no doubt there were going to be some substantial differences in the way that the IESO needs to interact with distributors throughout this.

Mr. Smith commented that the amount of impact on renewable generation due to planned work is going to exceed SBG impact on some areas and there will be a need to integrate this planned work. It is also important to consider the cost pressures as there are pressures to do work over the weekends, which has a labour impact that load customers pay for. Mr. Murphy agreed that this is a challenge. He further stated another driver for visibility of embedded generation is because knowledge of where the power is being generated is critical to reliably manage power flows on the transmission system.

Mr. Witjes asked where the IESO gets wind forecast information, how useful such forecasts are, and how reliable they are before real time. Mr. Murphy replied that a forecast cannot be a certainty, but better wind forecasting and the installation of more wind monitoring sites will help predict wind generation. The IESO has issued a Request For Proposal for Wind Forecasting in preparation for the need to have forecasts provided for the large facilities around the Province as well as the embedded facilities.

Agenda Item No. 4: Priorities for the Ontario Electricity Market (members to provide)

The Stakeholder Advisory Committee was asked to provide our sector's priorities for 2012-2014. The priorities represent the work each sector feels is of greatest importance to evolving the electricity market in Ontario, which is within the mandate and control of the IESO and SAC. Our written submissions can be found on the IESO web.

The Committee understands that stakeholder-identified priorities are an important contributor to the IESO's business planning process which was recognized by Mr. Campbell as he thanked the Committee. He mentioned the IESO takes the Committee's views very seriously and is appreciative of how much the Committee's input benefits the business plan.

In summary, sector priorities for the IESO include:

- Developing the Market Road Map with stakeholders
- Integrating renewable generation into IESO processes
- Expanding the Global Adjustment Class A allocation to other sectors
- Providing consumers with information to help make informed decisions
- Moving forward with competitive markets and clear price signals
- Creating a solution to address Surplus Baseload Generation
- Continuing implementation of Time-of-Use billing and the MDM/R

The input provided by the sectors can be found in the attached addendum.

A planning meeting will be held with Committee members and IESO Senior Management Team on May 11 where we will be discussing these and other key initiatives to be included in 2012-2015 IESO Business Plan.

Agenda Item No. 5: Ministry of Energy Long-Term Energy Plan

Mr. Wilcox commented that he sees significant challenges meeting the conservation targets and asked how much flexibility is built into the plan. Mr. Jennings said that it is a 20-year plan and will be revisited every three years so there will be an ongoing opportunity to review its targets.

Mr. Witjes asked Mr. Jennings about whether there was a review of the Global Adjustment reallocation legislation planned in the spring, since some consumers might want an extension of the 18-month opt-out window while they gather more information and consider their options. Mr. Jennings replied that 18 months is a fairly long window, but if people need more time that can be looked at.

ADDENDUM - Priorities for the Ontario Electricity Market

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Commercial Consumers: http://www.ieso.ca/imoweb/pubs/consult/sac/sac-20110302-Item4_CommConsumersSector_Priorities.pdf

In his remarks to the Committee, Mr. Schembri identified rising electricity costs as a significant area for concern for the sector he represents. He commented that the commercial sector has not received any cost relief as seen in the residential and commercial sectors. Mr. Schembri focussed on the allocation and settlement of the Global Adjustment for Class B consumers as a key issue for the Commercial sector. It is the sector's view that the Government of Ontario should expand the Class A definition to include all consumers over 500 MW. Further, the Commercial sector would like to see a consistent application of the Global Adjustment in settlements by LDCs and to have more details about how the variances are being reconciled. Mr. Schembri asked the IESO to request a change in the regulation.

Distributors: http://www.ieso.ca/imoweb/pubs/consult/sac/sac-20110302-Item4_Distributors_SAC_priorities.pdf

Mr. Wilcox presented the priorities of the Electricity Distributor Association (EDA) that are relevant to the work of the IESO. The sector's first priority is the continued implementation of Time-of-Use billing and the MDM/R in order to meet mandated deadlines. Second is the implementation of the smart grid and the leadership of the Smart Grid Forum. Distributors would like to avoid the duplication of work on smart grid implementation and would like the IESO to retain its leadership role. Such duplication of work is also the focus of an EDA initiative on regulatory streamlining, which the sector raised as a topic of interest to the Committee. He added we need to ensure we provide value to the customers and to not lose sight of this. Mr. Wilcox also noted that the EDA is doing further work on a proposal for the roles of the Transmission and Distribution sector and related agencies in the future. It expects to complete this work by the end of the year and will be sharing it with the Committee and other external stakeholders.

Mr. Wilcox stated that the EDA's road map to develop proposals for the appropriate future for Ontario's transmission and distribution sectors and the industry agencies is a good fit with the IESO Market Road Map project. He added that Distributors see this IESO project as an important priority and as part of this, he asked that Locational Marginal Pricing and the future of the MDM/R and the IESO role in it be closely examined topics. He commented that this needs to be an open and honest process.

Embedded Industrial Consumers: <http://www.ieso.ca/imoweb/pubs/consult/sac/sac-20110302-Item4 Embedded Industrial Planning.pdf>

Mr. Williams offered four priority items from his sector. First was the Global Adjustment. The sector recognized the good work the IESO did to educate large consumers about the new regulation and the sector is now seeking the expansion of the Class A definition to include lower-volume industrial consumers as well as a more accessible aggregation option.

Mr. Williams noted cost increases, which are of great concern to his sector. The sector called on the IESO and the Committee to promote an increased role for competitive markets and price signals representative of the real costs of generation and supply and transmission as well as a consideration of the role of exports. Third, the IESO was asked to be a clearing house for information for the Long-Term Energy Plan, and to provide ongoing information about the IESO's role and value to the electricity sector in Ontario. Finally, that the IESO continue to support Ontario businesses so that they can benefit from industry initiatives and energy efficiency opportunities.

Mr. Horrobin asked Mr. Williams, and also Mr. Schembri, how they envisioned a further reallocation of the Global Adjustment through lowering the defined threshold for Class A consumers. He asked if the balance of the Global Adjustment would be shifted under this model to residential customers. Mr. Schembri replied that the intent of this shift would be to create an association for industrial and commercial users between the cost of electricity and how the user consumes electricity. This will allow industrial users not currently classified as Class A to contribute to reducing load and provide benefits for the market. In the retail sector, he noted, the benefits of their demonstrated leadership on Demand Response has been diluted by the way the Global Adjustment is allocated.

Mr. Witjes added the comment that lowering the threshold for Class A consumers could also include some universities and hospitals in that category and allow them to benefit from reductions they make in energy consumption during critical peaks. In response to Mr. Horrobin's question on who would pay the Global Adjustment, Mr. Williams replied that they would not be avoiding paying the Global Adjustment, but lowering the threshold would provide choices to the larger consumers about how they manage their electricity costs.

Ms. Girvan observed that perhaps what was really being sought was a more creative demand response program. Mr. Schembri responded that he would say "partially yes" and that in his view the retail sector is an untapped resource when it comes to managing electricity demand. They are large consumers, and in his view they are paying more per megawatt than any other comparable sector.

Environmental Sector: http://www.ieso.ca/imoweb/pubs/consult/sac/sac-20110302-Item4_Wholesale_Consumer_Priorities_2011.pdf

Ms. Serafini stated that there is divergence of views in the sector she represents and so there is no widespread consensus on priorities for 2011. However, she brought forth two recommendations from the sector. First was to urge the IESO to look at the California loading order for environmental dispatch order that take into account health and environmental costs. Second, the sector would like the IESO to continue its leadership role in the Smart Grid Forum and in smart grid development to enable integration of renewables and providing a path for consumers to become active in their energy consumption behaviour. The promotion of sustainable mobility remains a core priority for this sector.

Generators: http://www.ieso.ca/imoweb/pubs/consult/sac/sac-20110302-Item4_Generator_Priorities_final.pdf

Mr. Martin and Mr. Horrobin, representing the views of the Generator sector, offered three agenda items for 2011, as well as two suggestions for the IESO's consideration in its business planning process.

The first Committee agenda item is the development of a formal process to address a solution for surplus baseload generation (SBG). This is an urgent matter for the sector, and the IESO was asked to address it on a priority basis by developing a concrete plan. Second, Mr. Martin stated the sector's disappointment with the increase of the OEB's approval of an increase to the export tariff from \$1 to \$2. The sector called on the IESO to monitor the impact of the tariff change and report to the Committee on the impact the decision has on Ontario energy prices, SBG and Global Adjustment. The third priority is the Market Road Map. Mr. Martin stated that Mr. Campbell's remarks on plans for the Market Road Map were encouraging and addressed some of the issues raised in the letter the sector prepared for the Committee. The sector is looking forward to participating in this process and committing resources to the initiative.

The two suggestions made for IESO business planning were to develop a plan for dealing with uncompleted Stakeholder Engagements and that the sector continues to encourage the IESO to consider the implications for generator contracts whenever Market Rule changes are contemplated.

Large Industrial Customers: http://www.ieso.ca/imoweb/pubs/consult/sac/sac-20110302-Item4_Wholesale_Consumer_Priorities_2011.pdf

Mr. White highlighted two broad priorities for his sector: cost control and efficiency – both of the market and rate design. Because market design and operation is an IESO responsibility, Mr. White stated that two issues of paramount concern are market design and price discovery. Mr. White noted that the Association of Major Power Consumers in Ontario is working on its long-term outlook for energy prices and that he believes it will generate additional concern

about the upward trend in electricity prices. In terms of market design, Mr. White is of the view that while HOEP is a representative price signal, it is becoming less relevant. He suggested that wholesale market service charges will present the more meaningful price signals for consumers, if they are presented in a real-time format rather than averaged over time. Good market design and good prices and rates that appropriately reward consumer behaviour should be a priority for the IESO and other agencies. Mr. White also said that the barriers for market participation are largely institutional and extending the opportunity for smaller companies to participate is something that should be considered. In closing, Mr. White noted that his organization is also looking at ways to rationalize electricity regulation in Ontario, although they do see an ongoing critical role for the IESO.

Marketers and Brokers: http://www.ieso.ca/imoweb/pubs/consult/sac/sac-20110302-Item4_Marketers_and_Brokers_Letter.pdf

Mr. Burkom presented the sector's top four areas of concern. First is the increase of the Export Transmission Service Tariff fee by the OEB from \$1 to \$2. The sector is opposed to the increase and believes that it will reduce exports to the detriment of the Ontario electricity sector. He added that many of the neighbouring jurisdictions are moving in the opposite direction and reducing transaction fees to trade between pools resulting in lower costs for customers. The sector calls on the IESO to advocate for reduced fees at the interties. Second is the need for appropriate price signals in the market. Retailers are particularly concerned that even with a rise in supply and a drop in demand; they have not been able to offer lower prices to their customers. It is the sector's view that the market must be rationalized to help contain consumer costs and prevent larger market distortions. Third, the sector strongly supports the Market Road Map initiative and seeks more information about opportunities for participation and to provide feedback. Finally, the sector calls on the IESO to take a lead role to ensure that policy makers in Ontario draft contracts that meet the revenue requirements of the infrastructure investments in the province without reducing the role of the markets to send meaningful price signals.

Public Service Sector: http://www.ieso.ca/imoweb/pubs/consult/sac/sac-20110302-Item4_Public_Service_Sector_Priorities.pdf

Mr. Witjes said that while his sector appreciates the work the IESO has done regarding changes to the Global Adjustment, it continues to be a priority, particularly regarding transparency of the true market costs within the Global Adjustment and to provide information about the improvements that are made under the new regulation. The sector also identified the connection of renewable energy projects as a priority, since many public sector facilities are installing generation projects of their own. To this end, the IESO should commit resources to connections to facilitate these projects. Finally, the IESO should ensure that it continues to make available the market data needed by the public sector to meet obligations for energy plans and conservation targets regulated under the Green Energy and Economy Act.

Residential Customers: http://www.ieso.ca/imoweb/pubs/consult/sac/sac-20110302-Item4_Residential_IESO_PRIORITIES.pdf

Ms. Girvan highlighted the need for individual consumer costs for electricity to be contained. She noted that the IESO is not responsible for many of these costs, but that it needs to maintain an awareness of the impact of all decisions on consumers and operate in a cost-effective manner. Ms. Girvan's sector is supportive of continued discussions regarding the Global Adjustment, but is not supportive of the reallocation of the Global Adjustment. The sector also called for cost-effective implementation of Time of Use billing and renewable power integration. She concluded that, for the residential sector, the priority is for the IESO to always look for ways to minimize increases on consumers.

Transmitters: http://www.ieso.ca/imoweb/pubs/consult/sac/sac-20110302-Item4_Transmission_priorities.pdf

Mr. Smith stated that the IESO is working well with Hydro One and that the IESO should continue to focus on system reliability and continue to work with industry to represent the requirements of Ontario's electricity system in the North American context. Mr. Smith made the observation that the Committee focuses on market operations and development more than reliability, which was an acceptable course of action given the items that are presently topical.

Two priorities Mr. Smith highlighted for his sector were the need to continue to focus on the effective connection and operations of new renewable generation and the need to collectively drive productivity and manage costs (particularly within the IESO and costs the IESO may cause transmitters to incur). The Transmitter sector would like to continue to work with the IESO to identify areas to increase productivity and to implement changes. Specifically, Mr. Smith cited alignment of planning models and streamlining local area operating processes.

Mr. Campbell asked Mr. Smith for his perspective on whether there had been any change in the ability to do maintenance in outages due to the IESO's online limits derivation work. Mr. Smith said that generally they are positive about this, but he would follow up with more detail.