



Power to Ontario. On Demand.

IESO SENIOR MANAGEMENT UPDATE

To: Stakeholder Advisory Committee

Date: March 2, 2011

Subject: **Market Roadmap**

Information Item

The IESO proposes to develop a market roadmap that identifies market changes that would benefit Ontario's market structure and support GEA objectives. Issues driving the need for a review of Ontario's market strategy include: the complexity of our current market; the need to better integrate contract, market and operational drivers; the role and value of the market and the role of efficient pricing, both generally and in light of developments such as smart grid-enabled demand response; and the importance to Ontario of market co-ordination with surrounding jurisdictions.

To develop the market roadmap the IESO has created the Market Roadmap Forum. The Forum, which will be chaired by George Vegh of McCarthy Tetrault, will provide a venue for Ontario's electricity sector to discuss issues key to the future development of Ontario's Electricity Market. A final report will be prepared and published by the end of December 2011. The Forum will engage a consultant to assist in this effort. Please see the proposed Terms of Reference for additional detail on the group and the process.

Draft Terms of Reference

Market Roadmap

1. Introduction

The Ontario electricity market opened in May 2002. While the Market Surveillance Panel Reports continue to assess the market as operating reasonably well according to its design, the Panel, IESO and market participants have identified potential opportunities for improvement, reflecting experience to date with market operations and outcomes.

Today, the electricity sector in Ontario is undergoing major changes as a result of government policy, the dramatic change underway in the characteristics of the province's resource mix, and technological advances that will increasingly enable consumer response. Major sector developments that are or will impact on the operation of the wholesale market include:

- Coal retirement and the anticipated addition of substantial variable generation to Ontario's electricity system, through the Feed-in-Tariff program.
- OPA resource contracting.
- Proliferation of demand-side management resources, at residential, commercial and industrial levels, enabled by smart grid investments.
- Potential introduction of carbon pricing policies with responsibilities placed upon GHG emitting facilities.
- Growth in Plug-In Hybrid Electric Vehicles in the transportation sector.

In light of these factors, and ongoing change across the sector, the IESO is initiating a forum to address the future role and development path for the IESO-administered markets.

2. Statement of Objectives

The efficient functioning of Ontario's electricity market is important to achieving the province's goals for and within the sector. Within that context the Forum will:

- Develop an understanding of the principal issues being encountered or anticipated in the operation of and participation in the IESO-administered market.
- Identify and assess the practicality of market changes aimed at improving the ability of the market to efficiently deliver reliable and sustainable electricity, promote transparency, meet customer requirements, align contract and market incentives, and support the operability of the electricity system.

- Develop a market roadmap – an actionable set of recommendations for the implementation of market improvements. The roadmap would include sequencing, timelines, enablers and barriers – developed to sufficient detail to support implementation within the time horizons outlined in the roadmap.
- Address the respective roles of the market, contracts, and regulation.
- Describe the anticipated outcomes and their benefits for the province, and identify the actions needed to overcome barriers to achieving those benefits.

3. Criteria

Recommendations to be made by the Forum shall be developed on the following premises:

- Ontario and the IESO remain committed to the North American reliability framework managed by the North American Electric Reliability Corporation (NERC).
- The roadmap will not negatively impact the reliability of the Ontario electricity system or compromise standards to which Ontario is committed under national and international arrangements.

Recommendations shall also:

- Balance efficiency, fairness, reliability, transparency, robustness, enforceability and practicality;¹.
- Take into account both consumer and producer interests, including any potential interplay with conservation and demand response initiatives.
- Be consistent with government policy and environmental objectives for Ontario's Long Term Energy Plan.
- Promote the resolution of operational challenges.

4. Scope

The Forum will:

- Focus on Ontario, but recognize market developments occurring elsewhere and any necessary or opportune linkages.
- To the extent Ontario's resource mix is relevant to its deliberations, assume a resource mix (generation, demand response and conservation) that is consistent with the quantities anticipated by the OPA for Green Energy Act initiatives, and for nuclear generation in the province.

¹ http://www.ieso.ca/imoweb/pubs/amendments/Principles_of_Market_Design.pdf

- Focus on preferred arrangements for:
 - achieving efficient real-time operation of Ontario's future power system;
 - encouraging and facilitating competitive market-based responses and options for meeting overall system needs;rather than on industry institutional structures.
- Not be an advocacy group for any particular industry sector.

5. Sponsor/Audience

The Forum is intended to engage the industry generally. The report will be a key planning document for the IESO management and Board of Directors, and in all likelihood, for advice to the Minister of Energy and the Ontario Government.

6. Products

- A comprehensive report that will contain findings and recommendations for Ontario's electricity sector and will form a basis for further action and discussion among policy makers, regulators and industry participants.
- Papers and presentations provided at Forum meetings.

7. Forum Structure

- The Forum will be roughly modeled after Ontario's Electricity Conservation and Supply Task Force (ECSTF – January 2004) and the Smart Grid Forum (February 2009.) That is, the Forum will represent industry leaders presented with a variety of information and arriving largely to a consensus view.
- The Forum is entirely voluntary in nature and apart from consistent participation, no obligation will be placed on participating organizations.
- George Vegh, McCarthy Tetrault, will serve as Chair for the Forum.
- Special presenters and submissions will be provided at meetings of the Forum.
- Presentation and discussion materials used by the Forum will be posted publicly for the benefit of the broader community. The intent will be to make all information public, though there may be the occasional time where proprietary interests will not make this possible.
- A final report will be prepared and published. The Forum will engage a consultant to assist in this effort. The consultant will also assist in preparing for and conducting the meetings.

- The Forum will consist of two inter-related committees:
 - The Market Development Committee
 - Consider alternatives for the evolution of Ontario’s electricity market and develop preferred arrangements for:
 - achieving efficient real-time operation of Ontario’s future power system;
 - encouraging and facilitating competitive market-based responses and options for meeting overall system need.
 - The Executive Steering Committee
 - With the IESO, and with input from the Market Development Committee, establish the priorities and workplan for the Forum
 - Meet with the Market Development Committee bi-monthly to review and focus the development of alternative proposals, provide advice as to their relative merits, and provide guidance on achieving a consensus-based market roadmap
 - Review and approve the Report of the Forum
 - The facilitator will work with the Chair to ensure that the development of agendas, selection of presenters, papers and presentations will facilitate the achievement of a consensus-based market roadmap

8. Membership

- Forum members will represent a broad industry view:
 - Executive Steering Committee
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 - Market Development Committee
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- The Ministry of Energy and the OEB may each nominate an individual to attend meetings of the Market Development Committee in an ex-officio capacity.
- Advice may be sought from the Market Surveillance Panel.

Administration

The IESO, working with the Chair and the Consultant/Facilitator, will provide the following functions to support the work of the Forum:

- Prepare draft agendas for each meeting
- Identify and arrange for appropriate presenters for each session's topic
- Develop list of points to guide post-presentation discussion
- Conduct additional research as directed by the Forum
- Provide technical input to the drafting of the Final Report

Consultant/Facilitator:

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9. Forum Practices

- Substitution – while consistent participation is the normal expectation, each Forum member may, when necessary, name a delegate of equivalent management level in order to maintain continuity and consistency of member participation.
- Voting/Decision making – largely by consensus, dissenting parties and reasons for dissent to be noted.
- Information confidentiality – Forum generally viewed as an open one where information will be placed in the public domain. The need for non-disclosure agreements is not envisioned.

10. Costs

- The IESO will cover the costs associated with engagements to support the work of the Forum, as well any costs related to disseminating information on its public web site.
- Meeting incidental costs to be covered by the organization hosting the meetings.
- Individual members will normally cover their own travel and incidental costs.

11. Meeting Locations

- Generally to be located in Toronto at IESO's Minto office 655 Bay Street, Suite 410.

12. Schedule

- It is anticipated:
 - The Forum is expected to meet over the period to September, 2011 and will produce a final report that will be made public in October/November, 2011.
 - Schedules for the meetings of the Committees for the entire period will be established, normally at two to three weeks intervals for the Market Development Committee, and bi-monthly for the Executive Steering Committee.
 - Typical meetings will consist of a morning of presentations followed by a general discussion by Forum members in the afternoon.
- Additional meetings may be held as necessary, including to finalize the Forum's report.