

Revision I – Sept. 7, 2011 – Clarified EDAC offer submission timeline

Revision II – Sept. 14, 2011 – Corrected to align with meeting proceedings. See page 10.

IESO Stakeholder Advisory Committee
Minutes of Meeting
August 17, 2011, 8:30 am
St. Andrew's Club and Conference Centre

Advisory Committee Members in Attendance:

Mr. John Witjes - Chair (representing Public Sector Consumers)
Mr. Bruce Campbell (representing IESO)
Mr. Paul Ferguson (representing Distributors)
Ms. Julie Girvan - Vice-Chair (representing Residential Consumers)
Mr. Richard Horrobin (representing Generators)
Mr. Craig Martin (representing Generators)
Mr. Mark Schembri (representing Commercial Consumers)
Ms. Ersilia Serafini (representing the Environmental Sector)
Mr. Wayne Smith (representing Transmitters)
Mr. Adam White (representing Wholesale Consumer Market Participants)
Mr. Todd Wilcox (representing Distributors)
Mr. John Williams (representing Embedded Industrial Consumers)

Absent:

Mr. Jack Burkom (representing Marketers/Brokers)
Ms. Adèle Malo (representing Marketers/Brokers)

Presenters:

Mr. George Vegh
Mr. Ted Leonard
Ms. Rhonda Wright-Hilbig
Mr. Kim Warren
Mr. Bill Rupert

IESO Board Members in Attendance:

Mr. Tim O'Neill – Chair
Ms. Roberta Brown
Mr. David Cassivi
Ms. Angela Ferrante (teleconference)
Ms. Tricia O'Malley
Mr. Paul Murphy
Mr. Rudy Riedl
Mr. Howard Shearer
Mr. John Wiersma

Agenda Item No 1: Welcome – John Witjes

Mr. Witjes welcomed everyone to the meeting and the new meeting location at St. Andrew's Club and Conference. He acknowledged representation from the Board of Directors including Angela Ferrante attending by phone, and introduced new member of the Board – Tricia O'Malley, former chair of the Canadian Accounting Standards Board.

Mr. Witjes also welcomed a new Committee member, Paul Ferguson, President of Newmarket-Tay Power Distribution.

Committee members were asked to stay for planning meeting at 11:30, following this meeting.

Agenda Item No. 2: Senior Management Update

Mr. Campbell took the floor to provide an update to the Committee on several items.

a) MDMR/Smart Metering

The briefing note is available at: http://ieso.ca/imoweb/pubs/consult/sac/sac-20110817-MDMR_Update.pdf.

Mr. Campbell spoke to the briefing note and referred Committee members to the note for additional details.

There were no questions on this item.

b) Renewable Integration Initiative

The briefing note is available at: http://ieso.ca/imoweb/pubs/consult/sac/sac-20110817-Renewable_Integration.pdf.

In addition, Mr. Campbell clarified that in terms of how quickly wind and solar investment in Ontario is coming in, the IESO will have to ensure the IESO's resource timing and timing of investment in Ontario matches up.

Mr. Witjes invited questions on the Renewable Integration Initiative update.

Mr. Horrobin asked for more specificity in terms of the change in timelines for Renewable Integration Initiative, and whether the IESO will be re-forecasting its Surplus Baseload Generation (SBG) forecast due to wind. Mr. Campbell responded that SBG is forecasted in the 18-month Outlook. As for the change in timelines for Renewable Integration Initiative, the IESO is now stretching the program into 2013, consistent with the stretching of renewable in-service dates. With respect to the speed that the renewable facilities go into service, the IESO relies on the Ontario Power Authority for the information.

Mr. Horrobin followed up on his questions of whether the IESO will reforecast the SBG outlook, and if it currently sits at 15 per cent of all hours are expected to be SBG hours. Mr. Campbell responded that exposure to Surplus Baseload Generation will probably be higher than that.

Mr. Horrobin asked if it would be higher at twenty percent of all hours (a fifth of all hours), and whether there will be a coping strategy for SBG given the delays in the Renewable Integration Initiative. Mr. Campbell replied that the IESO is continuing to move forward on wind dispatch issues. That effort is still proceeding and will get more attention as fall comes on.

There were no further questions.

c) Control Action Operating Reserve

The briefing note is available at: <http://ieso.ca/imoweb/pubs/consult/sac/sac-20110817-CAOR.pdf>.

Mr. Campbell highlighted that this project has impacts across the market, and the IESO wants to make sure all sectors are aware of its implications.

There were no questions.

d) Supply of Regulation Service in Ontario

The briefing note is available at: <http://ieso.ca/imoweb/pubs/consult/sac/sac-20110817-Regulation%20Service.pdf>.

Mr. Campbell noted Regulation Service has traditionally been provided most by generators. This Request for Proposal encourages technology neutrality, and provides more opportunities.

There were no questions.

Agenda Item No. 3: Electricity Market Forum (George Vegh)

Mr. Witjes introduced Mr. Vegh, the Chair of the Electricity Market Forum.

Mr. Vegh's presentation is available on the web at: <http://ieso.ca/imoweb/pubs/consult/sac/sac-20110817-Regulation%20Service.pdf>.

Mr. Wilcox asked whether there has been any discussion surrounding the challenges for communicating with demand-side of the market, as there have been a number groups communicating. If the goal is to motivate and engage, there needs to be one focal point and overall responsibility. Mr. Vegh confirmed that not having one single coordinated response is one of the challenges. The Forum has mainly focused on looking at conservation and demand

response programs by the Ontario Power Authority (OPA), IESO and the role of LDCs. The OPA has a lot of contracted demand-side conservation. The Forum has been addressing how these contracts can be more responsive to market activities.

Mr. Witjes asked Mr. Vegh to comment on the schedule and if the Forum is on track in terms of the recommendations coming in near November. Mr. Vegh confirmed that the Forum is on schedule and that they are currently looking at the options, and expects to finish by end of the month. The September to November deadline may slip into December. A meeting is scheduled in November to discuss recommendations, but time has been built in for the possibility for another recommendations meeting. The Forum is aiming for the end of the year.

Ms. Girvan asked for further explanation in terms of what happens to the recommendations once they are issued. Mr. Vegh responded that where the recommendations will go will be determined on strength of recommendations and how broadly they are accepted. The Forum has had the participation of the OPA, Ontario Energy Board, and IESO as a “reality check” and to get a consensus on that practicality of the recommendations. However, none of the recommendations are self-executing, as the IESO for example, has its own decision-making process.

Mr. Horrobin asked if it was possible to share details of the substantive options currently being discussed. Mr. Vegh responded that he is not in a position to address the specific options the Market Development Committee has landed on, but one would be able to suppose the general possibilities – for example for price: greater price flexibility and ramping flexibility.

Mr. Horrobin followed up by asking whether Mr. Vegh would come back to Committee to share what the options are once they are formulated upon which Mr. Vegh agreed to come back upon invitation.

Mr. Witjes added that the Stakeholder Advisory Committee agenda items are driven by the Committee, and would certainly like to continue receiving updates on the Market Forum.

There were no further questions.

Agenda Item No. 4: 2012-2014 IESO Business Plan (Ted Leonard)

Mr. Murphy provided opening remarks on the 2010-2014 IESO Business Plan presentation.

He thanked the Committee for providing input into the Plan, and noted that the IESO management team often referred back to Committee suggestions as a benchmark during discussions. As Ontario is continuing to go through the huge transformation that we have discussed in the past, the thrust of what the IESO is doing hasn't changed much from last year. The IESO will continue with multi-year initiatives such as renewable integration, energy modelling, and addressing the increasing complexity of real-time operations. These vary in impact on stakeholders. With respect to internal activities, the IESO is very dependent on their

IT systems. As the current systems have been in place since before market opening, a substantive part of the IESO's work over the next three years will be to replace or refresh these systems.

The North American Electricity Reliability Council's (NERC) 10-year outlook will identify incorporating variable resources as the largest risk to reliability in the 5-10 year time frame for the North American system. For the IESO, it's going to be earlier because of the resource mix. Another transformation, in earlier stages, is on the demand-side. Customers are becoming enabled and more interested in energy management. The IESO will need to take advantage of the opportunities that will be on available on the demand side to be able to manage the supply side for reliability and efficiency.

As an indication of the emerging importance of the demand side, PJM has about 14,000 MW of demand response in their forward capacity auction. In the future, the IESO will need flexibility in all segments of markets, even in the transmission and distribution systems. Some of the initiatives we will use to tap into this include Renewable Integration, which is entirely focused on the supply side. The online limits derivation initiative focuses on expanding capability and flexibility of the transmission system. The IESO will also be working with partners in the distribution community as well as aggregators to determine the kinds of signals customers are going to need to provide the responsiveness the industry is looking for.

The IESO plans to achieve our internal and external goals with no fee increase for the fourth year in a row. Mr. Murphy emphasized that having the support of the Committee on the Business Plan gives him the confidence to submit the Plan to Board, the OEB, and the Minister.

Mr. Murphy passed the presentation on to Mr. Leonard.

Mr. Leonard's presentation is available at: http://ieso.ca/imoweb/pubs/consult/sac/sac-20110817-Proposed_2012-2014_IESO_Business_Plan-SAC.pdf.

Mr. Witjes thanked Mr. Leonard on behalf of the Committee, and added that the Committee appreciates the opportunity to comment on the Business Plan. Mr. Witjes suggested that each sector offer their comments and any questions.

Mr. Witjes, on behalf of the Public Service sector, offered comments from his sector. His sector is happy that the IESO has had more engagement with consumers, for example the Class A consumer sessions for Global Adjustment were very helpful. His sector also finds the information on the IESO's website helpful and makes use of it on a daily basis. Mr. Witjes hopes to see more of the same education and engagement in the future.

Mr. Leonard clarified that additional engagement the IESO is planning for consumers is not going to come at the expense of other customer classes.

Mr. Witjes opened the session up to questions and comments from other Committee members.

Ms. Serafini on behalf of the environmental sector, expressed support for the expansion of greater consumer engagement, however she cautioned the continued concern of agency overlap. There needs to be a framework for that, and role that has a mandate for greater customer engagement.

Mr. Leonard responded that in terms of consumer engagement, the IESO expects to continue to work efficiently with other agencies, LDC community and government.

Mr. Martin, on behalf of Generators, expressed support for the majority of the IESO's objectives and plans. He is pleased to see the upcoming stakeholder work on Control Action Operating Reserve and transparency, and appreciate that their comments were incorporated. With respect to the proposal to expand strategic objectives to include engagement of consumers, he questions how the Committee could evaluate this proposal. As IESO fee is remaining flat; consumer engagement will not be at the expense of other customer participants; and there will be an increase in resource competition within the IESO, how do we know that is where the IESO should be spending their time.

Mr. Leonard noted that flexibility is key, and as the consumer becomes increasingly important, the IESO believes that it needs to at least explore options in 2012. He mentioned that from a resourcing perspective, it's not a large amount of resources.

Mr. Murphy added that the IESO is not exactly adding strategic objective in his view. One of the IESO's existing objectives is to adequately prepare for the future. In doing the evaluation, Committee members can ask: Can the IESO adequately prepare for future if they ignore the demand side. Mr. Martin countered that he is not proposing the IESO should be ignoring the demand side. Rather than asking Committee to endorse engagement with consumers, he suggests explaining the cost benefit analysis of what benefits could be gained from engaging in consumers and what it will cost the IESO.

Mr. Leonard clarified the slides may sound more definitive than it was meant to be. The IESO is looking to gain intelligence of what, if anything, the IESO needs to do with respect to consumer engagement. He acknowledged that the IESO is biased that customer response is needed. The IESO has not pre-determined what needs to be done and how.

Mr. Campbell added that the IESO is doing a lot of work to manage the change of asset mix on the supply side. The industry is seeing the same kind of change the consumer side and, just as with the generators, the IESO needs to address how consumers actions can facilitate reliable and efficient operation of the power system.

Mr. Schembri commented that the IESO should focus on what benefits can be derived from the next layer of customer class (below 5 MW). The commercial sector believes that they can start participating in the market at the level the large industrials are and the system will benefit from

the involvement. In terms of taking the engagement down to the residential level, the LDCs play a strong role and will continue to play a strong role.

Mr. Warren mentioned that during his presentation later on the recent heat wave, a graph will show some consumption patterns that will ground this discussion.

Mr. Williams offered his agreement with Mr. Schembri - his members are also interested in the 5 MW threshold being lowered. He also offered, that although Committee is not in a position to run the IESO, he questions the flat fee. The initiatives mentioned drive more costs, especially the IT initiatives, and suggests looking at a fee increase for 2012.

Mr. White asked how the strategic objectives can be used to measure performance against objectives, as the objectives stated do not articulate outcomes.

Mr. Campbell assured that in terms of performance, the IESO is subject to a comprehensive performance evaluation that covers all of the objectives. The IESO posts on its website quarterly, updates against the corporate objectives, many of which are measurable and quantified. The past quarter's update will be posted today, or soon, and could advise on where to find it. (Secretary's note: The 2011 Q2 report is now posted and can be found at: http://www.ieso.ca/imoweb/pubs/corp/reports/cp_Q2-2011.pdf)

Mr. Wilcox echoed Mr. William's concern on the issue of a fee increase. He questions whether a flat fee would compromise the IESO's business today or the ability to execute its planned objectives over the next few years. Mr. Wilcox also supports engaging the customer, but is concerned about what it is the IESO wants them to do. It is necessary to find out before getting in the engagement process.

Mr. Ferguson provided an analogy of the consumer engagement discussion to the exploration of oil. He suggested that oil exploration, as with the customer engagement exploration, the IESO has to determine whether there is something real there and what could be expected in outcome. He agrees that consumer engagement cannot be ignored.

Mr. Horrobin recognizes that the IESO is in a tight resource constraint environment. His concern is the continued delay due to resource constraints for current projects and the resulting moving back of timelines. Specifically he is referring to the timeline for Renewable Integration. He suggests address these concerns and completing ongoing initiatives before more is begun.

There were no further questions or comments.

Mr. Witjes thanked Mr. Leonard and Mr. Murphy, and suggested the group take a 10 minute break to return at 10:25 am.

Upon returning from the break, Mr. Witjes acknowledged a missed comment for the previous presentation.

A member of the floor, Mr. Rob Cary (Goreway PS), provided a comment on the IESO's information publications. He commented that due to staff changes, he has noticed that the IESO has put less emphasis on the publication of information, specifically the quality and timeliness of it. He emphasized that the information is important to stakeholders and hopes it will receive ongoing attention.

Agenda Item No. 5: EDAC (Rhonda Wright-Hilbig)

Ms. Wright-Hilbig's presentation is available at: http://ieso.ca/imoweb/pubs/consult/sac/sac-20110817-EDAC_Update.pdf.

Mr. Witjes thanked Ms. Wright-Hilbig for the presentation and asked for questions from the Committee.

Mr. Martin thanked Ms. Wright-Hilbig for acknowledging the generator sector's efforts in the EDAC project. Generators have asked him to share that the market trials have not been going smoothly, and he inquired as to how late the EDAC Settlements phase of the Market Trials are running. Ms. Wright-Hilbig responded that the Settlements Trials are three weeks late from the scheduled shared with stakeholders in June.

Mr. Martin pointed out that one of the objectives of the Market Trials are to help market participants become comfortable with the new systems, but also to equally ensure their systems and settlements can interact and they are confident when the project goes live.

Ms. Wright-Hilbig confirmed that was correct. Not only is it important to get their systems to connect, but it is an opportunity to exercise their own processes.

Mr. Martin asked Ms. Wright-Hilbig to confirm whether or not the market trials are going well.

Ms. Wright-Hilbig responded that it is the first time the IESO has provided an integrated system for participants to interact with. The IESO provided a cautionary note in the beginning of the year to participants that the testing system is not an environment to test their strategy in, only to test their automatic processes. The IESO prepared 600-700 settlements test cases with large amounts of input data and outcomes, as EDAC presents large change to settlements equations and payments. Some participants found the test cases very useful, but some participants have difficulties with the statements that are coming out of the system, as they do not completely execute the full breadth of the charges. For example - The participants may attempt to make use of all fifteen new or modified charge types in testing however participants may not see all fifteen in the settlement statements. The IESO will be re publishing final versions of the test cases provided earlier, and will contact participants to explain and ensure they are comfortable with the test cases.

Mr. Martin thanked Ms. Wright-Hilbig for her answer. In addition, his constituents are concerned that once the IESO Board makes a decision to go live on October 12, there is no other possibility to change the date. His constituents want to make the IESO Board aware at this stage, that testing is not going well currently. He added that they feel their wish to test the system is potentially sacrificed for the Oct 12 deadline. Mr. Martin asked what factors are required in order for the IESO to delay the October 12 implementation recommendation to the Board.

Ms. Wright-Hilbig commented that many market participants are engaged in testing, but some are not engaged. In recognition of this fact, the IESO has built the Day-Ahead Commitment Process design and implementation to be flexible, so a generator only needs to offer **an additional** hour ahead **than currently**, in order to operate in real time. The IESO will not leave anyone behind. On operations side, the engaged participants are quite comfortable with the engine. On the settlements side, most MPs are building shadow settlements. In the past projects, it has been typical that these systems are tested after implementation even up to the first settlement statement.

There were no further questions or comments.

Operations Report (Kim Warren)

Mr. Witjes introduced Mr. Kim Warren, the Chief Operating Officer of the IESO.

The presentation given by Mr. Warren is available at:

http://ieso.ca/imoweb/pubs/consult/sac/sac-20110817-Operations_Report.pdf.

Mr. Witjes commented that it is great to know our systems in Ontario including our own people are performing well. He thanked Mr. Warren and asked for any questions from Committee.

Mr. Horrobin congratulated Mr. Warren and his staff for a great job on a tough day. Given the extreme day, the third highest demand day of all time, Mr. Horrobin asked whether the electricity prices were reflective of an extreme day. Mr. Warren answered that the Hourly Ontario Energy Price (HOEP) for Monday to Wednesday, on-peak was about \$40 to \$50. The average on-peak was about \$60 to \$70 Wednesday. On Thursday, it was \$90. There was one spike of \$120 on Wednesday when three units left at 4:30 pm. On Thursday, HOEP was \$184 at 12:30 pm when the system lost a large thermal unit. Of the three units lost on Wednesday, one large unit returned on Thursday mid-afternoon. Ontario was a net importer from 11 am to 2 pm on Thursday. The lowest HOEP throughout the week was \$4. Lennox was called to market by price on Thursday and came online as expected.

Based on that the fact that today's fuel has a tempered fuel price (gas or existing fleet) Mr. Warren was comfortable with the pricing being seen. The pricing through the week peaked at \$200. Ontario has not seen the monumental spikes as in the past partly because water resources have been good this year, assets behave as expected and transmission system has

performed exceptionally well. Ontario was not a net importer at any significance. Loop flows around Great Lakes was about 200 to 300 MW (doubled on Friday), and TLR activities were fairly low.

Mr. Horrobin asked that with 325 MW of DR3 and 109 MW of PeakSaver response, whether consumers respond as expected and whether the pricing signal effective. When looking at PJM, peak prices there were 50 per cent higher than in Ontario. Mr. Warren said he did not have the details on what specific loads did during this time. He also indicated that at present the IESO does not yet have access to distribution based generation data which could distort consumption patterns. As the province moves towards a goal of 28 TWh¹ of conservation and demand response, the IESO feels it is necessary to expand its efforts in monitoring this activity.

Steve Burnham from RBC Capital Markets (on the phone), asked whether activating the Lennox unit during the heat wave was an IESO action. Mr. Warren reiterated that Lennox was preposition early in the week. When managing system events, reliability coordinators are required to take actions based lessons over the years. The IESO increases communication with transmission side of the business and generators regarding, for example, about two shifting units, if the units are in good repair, which units are hot, which should be pre-warmed to bring them into range if they are required to be brought to market.

Mr. Burnham further asked whether generators are compensated when they are pre-warming and if there is anyway stakeholders can know when that is happening. Mr. Warren confirmed that they are compensated. As for whether stakeholders will know when this is happening, Mr. Warren responded that the IESO will look into this for next time and what can be learned from this event. The IESO has a cold weather operating policy, and is looking into a hot weather policy as well.

Mr. Burnham asked about the pre-warming compensation, whether the difference in the heat wave is put into uplift or Global Adjustment costs. Mr. Warren suggested it may be a bit of both depending on the asset. He suggested further details could possibly be obtained from the OPA.

There were no further questions or comments.

Agenda Item No. 6: Market Surveillance Panel Monitoring Document: Generator Offer Prices Used to Signal an Intention to Come Offline – MSP Item (Bill Rupert)

Mr. Witjes introduced Bill Rupert of the Market Surveillance Panel (MSP).

Mr. Rupert noted that he was standing in for Neil Campbell, Chair of the MSP, who was unable to attend today's meeting.

¹ Secretary's note: From Ontario's Long-Term Energy Plan, page 10 "Ontario is a leader in conservation and the government will continue to increase and broaden its targets to 7,100 MW and reduce overall demand by 28 terawatt-hours (TWh) by 2030." http://www.mei.gov.on.ca/en/pdf/MEI_LTEP_en.pdf

Mr. Rupert's presentation is posted at: http://ieso.ca/imoweb/pubs/consult/sac/sac-20110817-MSP_Monitoring_Document.pdf .

(Secretary's note: Since the meeting on August 17, the MSP's final monitoring document has been adopted and posted on the OEB website:
<http://www.ontarioenergyboard.ca/OEB/Industry/About+the+OEB/Electricity+Market+Surveillance/Monitoring+Document+-+Generator+Offers> .)

Mr. Witjes asked whether the Committee had any questions for Mr. Rupert.

Mr. Martin asked about the consequences of an MSP investigation. Mr. Rupert responded that there is nothing in the Electricity Act that allows the MSP to impose sanctions (for example, fines). The results of an MSP investigation and an associated recommendation are provided to the OEB Chair. As for what action the OEB might take after receiving an investigation report from the MSP, Mr. Rupert noted that there is no precedent to rely on as the MSP has not yet issued an investigation report.

Mr. Cary asked whether the MSP would address the specific questions asked in the comment letters. Mr. Rupert replied that the Panel would not release a report on the pricing analyses and 30 per cent, as the price level was adopted for the Panel's internal use only. Mr. Cary asked if Mr. Rupert could you confirm that shadow prices used for the 30 per cent pricing analysis were 5-minute prices rather than the hourly average. Mr. Rupert confirmed it is the 5-minute price.

Agenda Item No. 7: Other Business

There was no other business arising.

Agenda Item No. 8: Wrap Up and Adjournment

Mr. Witjes thanked those present for joining the meeting.

He advised members that the next meeting is scheduled to be held on October 19. He asked the Committee to stay back for a planning meeting after a short break.

The meeting was adjourned.