

Minutes of Meeting

Date held: September 30 th , 2008	Time held: 1:30 – 3:30	Location held: Minto Boardroom
Invited/Attended	Company Name	Attendance Status (A)ttended; (R)egrets; (S)ubstitute
Loughren, Chris	Bruce Power	A
Wight, Gary	Constellation Energy Group	A
Jennings, Brett	OPA	A
Shah, Sushil	OPG	A
Bell, Brian	OPG	A
Margaret Kuntz	TransCanada	A
Kerr, Paul	Shell Energy	A
Cary, Rob	Sithe Global	A
Tench, Don	IESO	A
Penn, Richard	IESO	A
Kamstra, Pat	IESO	A
Leonard, Ted	IESO	A
Martinello, Anthony	IESO	A
Rivard, Brian	IESO	A
Briggs, Jeannette	IESO	A
Lubek, Jack	IESO	A
Fulton, Sheldon	OPA	R

All meeting material is available on the IESO web site at:
http://www.ieso.ca/imoweb/consult/consult_se21-efm.asp

Item 1: Review of July 29 Meeting Minutes and Materials for this meeting

Pat Kamstra (IESO) requested any additional feedback on the meeting minutes from the July 29 Technical Support Group meeting. There was no further feedback from stakeholders regarding the minutes.

Pat noted that the meetings scheduled for mid August and early September were postponed due to scheduling difficulties and other priorities (specifically the enhancements to the day-ahead commitment process). Meeting materials were sent out prior to the postponed meetings, and stakeholders had sufficient time to review them. The materials included a diagram of potential EFM design choices, with some details about each alternative (impact on market rules, systems, prudentials). TSG members requested this information at the July 29 meeting in order to adequately understand what was possible

beyond the preliminary assessment EFM or the exchange model of an EFM (discussed at the July 29 meeting). Pat indicated that the IESO did not feel it necessary to review each alternative in detail, but rather we will focus on the goal of the EFM and the analysis required to reach that goal.

Item 2: Goals of an EFM, Decision Factors and High Level Design Choices

Pat Kamstra presented EFM goals and decision factors for discussion. Review of some high level design choices (IESO administered or Externally operated EFM; Financial or Physical forward contract) was also presented.

Members Questions, Comments and Discussion

1. A stakeholder indicated that the goal of an EFM should be “opportunity for forward financial commitments” only. The second proposed goal: “delivering a reliable predictor of real-time price” is just a possible by-product of the financial commitments, but not a goal. The decision as to which EFM design to consider should not depend on its ability to provide a price predictor.
2. The group agreed that adequate liquidity is an important aspect of any EFM. However, there were differing opinions regarding the importance of a cost benefit analysis. One stakeholder felt that “some things you do because they are right”, not because there is a positive CBA. Other parties believe that a CBA is a deciding factor and that we should not proceed with an EFM where costs are determined to be higher than known efficiencies.
3. Pat noted that if the IESO administered the EFM, it may be less visible outside Ontario than an exchange EFM, and only MPs could participate – these factors could impact liquidity. However, those who are not physical market participants (i.e., virtual, small commercial, etc) could register to become a financial market participant if desired, and it was identified by participants that the requirements to become an IESO financial market participant are less stringent than the requirements of others (e.g. NGX). At this time, it is not expected that this factor would have a significant impact on liquidity of an EFM, but any impact including the costs of becoming an MP should be considered in our analysis.
4. It was acknowledged by the entire group that prudential posting requirements might become a material factor in participation in an EFM. The lower the posting needed, the less of a barrier it would represent and more liquid the market. Prudentials also impact the overall costs incurred or efficiencies achieved.
5. It was generally agreed that, due to OPG and other pricing ‘hedges’, it was assessed as unlikely that significant volatility of net price (ie after global adjustment etc) in the near-term would materialize and drive obvious liquidity in the EFM immediately. However, it was generally agreed that the ability to better manage risk and future volatility should be a benefit for all participants.

6. The topic of incentives for participation was raised by several stakeholders. Some felt that incentives might be appropriate and required to get a sufficient volume within the EFM initially. Others felt that the inclusion of incentives is inappropriate and market forces should drive the usefulness and benefit of an EFM in the medium-term.
7. Clarification was provided that, although the IESO may identify some EFM transactions as “physical”, referring to “Physical Bilateral Contracts” as defined in the IESO market rules, all forward arrangements are essentially financial even when the transactions involve physical load or generators. The principal difference is in the way the IESO settles the EFM.
8. It was suggested that the IESO may want to consider limiting initial products to peak and off peak blocks to help ensure initial liquidity in the market. However, the group largely believed that this was unnecessary since NGX offers these products already, and that any EFM should be hourly. Further, the group believed that even if there is not enough liquidity to achieve price convergence in every hour, that was not an obstacle.
9. The OPA CES contracts were mentioned with respect to the pricing clause which states that the contract price would reflect the EFM price, were the EFM were established. There was some disagreement as to the likelihood of this happening due to risk issues, and it was noted that the market would need to be adequately liquid for this to be considered which may take several years. The movement of OPA contract reference pricing was agreed to be outside the scope and control of this initiative.

Item 3: Prudential Review (IESO Finance)

Anthony Martinello presented information regarding prudential posting requirements under various scenarios.

Members Questions, Comments and Discussion

The discussion of physical versus financial contracts continued. Stakeholders asked why a financial contract was treated differently than a physical contract in terms of prudentials. The IESO referred to concerns with placing more risk on physical market participants for a financial market. Stakeholders suggested that there was no difference in market exposure between a virtual PBC transaction and a financial forward swap transaction, and that this was discussed fully in the DAM meetings which occurred in 2004. It was agreed that IESO Finance would take this back and review to see if there was any legal basis or risk issue.

Stakeholders identified a concern if suppliers were unable to leverage their credit balance owing from the IESO to reduce prudentials in EFM transactions. The IESO expressed agreement with the concept.

One stakeholder indicated that the prudential requirements appeared to favour generators and questioned the fairness of the policies. Further, it was mentioned that the prudentials seemed to be calculated differently for different types of participants (for example, load purchaser versus virtual purchaser). The IESO will review these concerns.

Item 4: IESO Findings and Next Steps

The IESO presented its general findings: due to prudential advantages, an IESO administered EFM may be preferable. Implementation of any EFM would involve costs related to market rule changes and systems. Over time, structural evolution of electricity pricing may result in more price volatility which would increase the value of the availability of an EFM to Ontario consumers.

Members Questions, Comments and Discussion

Stakeholders agreed that, although the concept of an EFM achieved some of their goals and may be worth further investigation, they prefer that the IESO use its resources to deal with dispatch issues and future market evolution initiatives.

The IESO thanked the TSG members for their input. As this is the last meeting of this TSG, no further meetings are scheduled, but stakeholders will be included in any additional EFM discussions and will be advised of the IESO’s future plans for EFM. The IESO will distribute the draft minutes for stakeholder review.

Action Item Summary				
#	Date	Action	Status	Comments
1		IESO Finance to further review prudential differences for financial versus physical forward contracts. The will also access any information from 2004 DAM review.	Open	
2		Draft minutes to be provided.	Closed	