

Memorandum

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To: THE BOARD OF DIRECTORS
of the Independent Electricity System Operator

From: Gary Sherkey
Vice President - Corporate Services, Chief Financial Officer and Treasurer

Date: September 6, 2005

Re: Stakeholder Feedback re: 2006-2008 Business Plan

On August 24, 2005, the IESO held a stakeholder engagement session on the 2006-2008 Business Plan. Overall, the session was reasonably well-attended and gauged a success by the attendant stakeholders. Specifically the IESO received positive feedback on the format and content of the session. Attendees were asked to complete a feedback survey on the session. Please find a summary of that survey in Attachment 1 to this memorandum. Verbal feedback from attendees during the session as well as written feedback received by us after the session served to reinforce this message.

In addition, at the session, notes were taken by us on the comments, questions and concerns raised by attendees. IESO staff tracked the points on a flip-chart as they were raised to ensure stakeholders' points were being accurately documented. Afterwards, the IESO posted these points on its website to allow for clarification if any stakeholder felt any item was inappropriately documented. These points are included as Attachment 2 to this document.

Lastly, attendees were afforded the opportunity to provide written comment on what they saw and heard that day. The IESO received written feedback from: Coral Energy Canada Inc. (Coral), the Association of Power Producers of Ontario (APPo), Ontario Power Generation Inc. (OPG), and Brascan Energy Marketing Inc. (Brascan). This written feedback has been provided as Attachment 3.

Overall Feedback

Generally, there is a large degree of support of the IESO's proposed priorities over the planning period. There seems to be a common view that these priorities are consistent with the direction of the industry. In this area, stakeholders have identified that they would like assurances that there are sufficient resources within the Plan to deliver on those priorities. IESO management believes the resource complement included in the 2006-2008 Business Plan is appropriate to allow for the delivery on the IESO's market evolution plans.

From a rate and cost perspective, participants were supportive of the proposed rate reduction and were congratulatory when they made any mention of rate or costs. There were some concerns raised that the IESO was not planning on carrying sufficient cash balances to handle contingencies. The IESO will continue to employ appropriate cash forecasting and would at no time repay debt inappropriately simply to be in line with its approved Plan.

In terms of roles, there continues to be some lack of clarity as to the respective roles of the IESO and the Ontario Power Authority (OPA). The Plan will continue to make clear the largely unchanged role of the IESO as a result of Bill 100.

All of the questions or comments presented at the session (Attachment 2) were responded to at the time and, where appropriate, have been reflected in the Plan document.

Responses to Written Feedback of Stakeholders

In terms of the written comments received since the stakeholder session (Attachment 3), IESO management offers the following responses:

Stakeholdering the 2006-2008 Business Plan

Upon approval by the IESO Board of Directors, the IESO will file its 2006-2008 Business Plan with the Minister of Energy no later than October 3, 2005. Upon approval, the IESO Plan will be filed with the Ontario Energy Board as part of its IESO's 2006 rate application. The IESO is hopeful that stakeholders will continue to remain involved in the process and continue to demonstrate their support for this Plan.

Looking beyond this year, the IESO plans to undertake a similar approach to stakeholdering the business plan in future years, including: the involvement of senior executives from various areas of the organizations; a high-level approach that focuses on the key components of the Plan. The one certain change going forward would be that the IESO would look to stakeholder its business plan through the Stakeholder Advisory Committee in 2006.

Progress Reporting Against the Business Plan

Consistent with past practice, the IESO plans to periodically update stakeholders on its operating and financial performance relative to the approved Plan. In the past, the IESO has reported this information to the Regulatory Affairs Standing Committee (RASC). As a result of the IESO's revised approach to stakeholdering, the RASC will no longer exist. However, a suitable forum within the IESO's stakeholdering arena will be determined or created and routine reporting on the IESO's performance and outlook will continue in 2006.

Currently, the IESO also issues unaudited quarterly financial statements. In 2006, the IESO plans to broaden the quarterly information reported to include projected financial results and detailed information on the status and outlook of the IESO's capital program.

Requested Points of Clarification

The 2006-2008 Business Plan, or supporting materials filed as part of the IESO's 2006 rate application, will clearly include the following:

1. A clear accounting for all market evolution resources within the Plan.
2. A generic explanation of the budgeting process for operating expenses and capital expenses.
3. A detailed capital plan that includes a listing of specific projects, along with project descriptions to help market participants in their assessment of the impact of IESO plans on their businesses or systems.

In addition, there were direct requests made for the IESO to outline, on a line-by-line basis, the resources within the plan that are being specifically directed at each one of the five categories of market evolution outlined in the presentation (consistent with those outlined on page 5 and 6 of the draft Plan). The resources in the Plan to support market evolution are not specific to each of the items. Rather, IESO management expects that the market evolution categories to be addressed over the first eighteen months of the planning period will not all require comprehensive system or tool changes. IESO management expects that some of the necessary modifications will be completed through manual process or procedure changes while others may require minor system changes. It is only as solutions, or potential solutions, are developed, will IESO management then be in a more informed position to undertake the necessary and ongoing reallocation of resources to address the priorities. IESO management does believe it has sufficient resources overall in this plan to deliver on its evolution plan.

Within the Plan, the IESO does include resources for market evolution through: line organization budgets for staff time, consultants engaged to support evolution, stakeholdering costs, major market system minor modifications; and capital costs for application changes (\$2 million per year over the planning period) and the \$15 million assumed for a day-ahead market solution. Specific to the application changes, or vendor change requests (VCRs) as they are known within the IESO, the budget in this area reflects an expectation of continuing revisions and improvements but IESO management does not establish a list of potential changes to support the \$2 million budget.

There also appeared to be some sense from stakeholder questions that the market evolution work to be undertaken over the 2006-2008 period is the principal requirement of resources - the operating resources dedicated to market evolution would represent a small fraction of the costs necessary for the IESO to fulfill its legislated mandate.

A handwritten signature in black ink, appearing to read "Gary Sherkey". The signature is written in a cursive, flowing style.

Gary Sherkey

GS/tl

Enc

Cc: IESO Records

ATTACHMENT 1 – SUMMARY OF STAKEHOLDER FEEDBACK

Stakeholder Engagement Session: 2006 – 2008 IESO Business Plan, August 24, 2005

Question	Response	Yes	No	Other
1. This stakeholder session on the 2006-08 IESO Business Plan was initiated earlier and to a wider audience than previous years. This session was of value to me.		1	9	6
2. I am satisfied to be involved at this stage in the process. If you disagree, please add comments below.			11	5
3. Comments and/or concerns on the 2006-08 IESO Business Plan were recognized and documented.			6	2
4. I felt that I was an equal team member and that no one person, company or association had undue influence on the outcome of the session.		1	10	3
5. I feel I have enough information to provide written comments on the 2006-08 IESO Business Plan before the August 30 th deadline.		2	11	2
6. I feel that the timeframe in which to respond, August 30 th is reasonable.	2	3	9	2
7. The presenters at today's session were professional and expert in fulfilling this role.			6	10

Comments

- Could have used a floor microphone.
- Advance materials might have been useful to position the event a bit more.
- Thanks for a good session.
- Very well done.
- Overall, a good presentation.
- Good job.
- Very frustrating – too short. People want to help – only by all of us working together do things start to work.
- Thank you for the presentation, well done and informative.
- Thanks for the presentation.

Feedback from Phone In Participants (1)

- The sound quality was fine, the operators explained how to ask questions, and I received the presentations by email, though they were not posted on the IESO website.
- I have two suggestions:
 1. Several times during the discussion, references were made to page numbers e.g. "see page 8". My copy of the presentations did not have page numbers, so it was difficult at times to follow. It would be helpful to have page numbers included on each page of all presentations, including graphs.
 2. Though the moderator often asked audience participants to identify themselves when speaking, they did not always do so, especially when they came back to the mike for a second question/comment.
- Also, some used only their first name – It would be helpful if each speaker clearly gave his/her complete name and organization each time they spoke.

Question #3 from 6 participants was not rated.
Question #3 from 2 participants was undecided and circled both 2 & 3.
Question #4 from 2 participants was not rated.
Question #5 from 1 participant was not rated.

ATTACHMENT 2: Notes from Stakeholder's Session: 2006-2008 IESO Business Plan
August 24, 2005

1) Barry Chuddy – Enersource

- Positive recognition of the IESO's proposed fee reduction.
- Are you sure you are doing all you can with respect to co-ordinating financial efficiency between IESO and OPA? (overlap of activities between IESO and OPA)
- Is work going from IESO to OPA?
- For a nominal increase at IESO can you achieve what is being done at OPA?

2) Tom Adams – Energy Probe

- Over the summer months, neighbouring markets have stronger reserves and higher prices, this seems to be counter intuitive.
- Defined benefits create uncertain liabilities. Are there opportunities for the IESO to evolve to a defined contribution plan, for the benefit of customers?

3) Adam White – AMPCO

- What is the status of the \$15M for the OPA? Have they drawn it down?
- People have gone to the OPA, but the head count has only gone down by 2.
- Need a clear number on pension costs.
- Are all of those other Market Evolution priorities (other than Day Ahead) costless to IESO?
- Are there costs for MEP after 2005?

4) Christine Dade – Oshawa PUC

- Congratulatory recognition on the proposed fee reduction.
- Need to have more disclosure on the pension expense. Didn't think that \$10M in pension should reflect that much of an increase.
- There isn't enough cash with decreasing debt and revenues and offering rebates.
- What is the process for the rebates to the LDCs?
- When will the proposed new rate take effect? Are you going to wait until it is approved?

5) Tony Petrella – OPG

- Is there somehow that we can link the 5 Market Evolution projects to lines on the capital page?
- Could you clarify this in plan document? If not, can you commit to a linking of the five Market Evolution initiatives?

6) Lauri Gregg – Falconbridge

- For \$15M will you solve the problems of harmonizing Day Ahead/interties with other jurisdictions?
- How are you going to prioritize work going on with these 5 Market Evolution activities?
- Will you be including stakeholders?
- Is the MOE involved with discussions with IESO/OPA?
- Disconnect between policy and practice.

ATTACHMENT 3 – WRITTEN STAKEHOLDER FEEDBACK

From: Kerr, Paul [mailto:PKerr@coral-energy.com]
Sent: August 30, 2005 10:54 AM
To: 'IESO Stakeholder Engagement'
Subject: Comments re 2006-2008 IESO Business Plan

Thanks again for a good session.

For content ...

To echo the comments of others, I appreciate the efforts of the IESO to manage the financial affairs successfully, resulting in debt repayment and lowering of the administrative fee. As a capital intensive not-for-profit operation the high levels of cash flow are to be expected, so it would be my preference to see more emphasis on cash flows than operating surplus or deficit calculations. Since I strongly support the market evolution initiatives, my concern is the potential for under-planning the cash needs that may develop to fund both planned and unplanned capital expenditures in this area.

For process ...

Excellent job having both topical experts as well as senior executives in attendance. Notice regarding the meeting was issued well in advance and I believe this contributed to the broad stakeholder representation present. Since this discussion was held earlier in the planning process than previous years, and at a higher level, I believe it was a good indication of where the IESO is heading with its planning, but I do hope that additional opportunities will be made available for stakeholder review, discussion, and comment as the plan evolves.

Paul Kerr
Shell Trading
Coral Energy Canada Inc.

From: Jake Brooks (APPrO) [mailto:Jake.Brooks@appro.org]
Sent: August 30, 2005 3:12 PM
To: Stakeholder.Engagement@ieso.ca
Subject: APPrO comment on the IESO Business Plan

Dear Sir or Madame,

Please find attached a document including some comment from APPrO on the IESO business plan, following from the consultation meeting at the Toronto Congress Centre on August 24.

Please feel free to contact me if you have any questions or comments.

I have included the material in text form (below), and in a Word document (attached).

Thank you,

Jake Brooks

**APPrO Comments and Recommendations on the IESO Business Plan (2006 - 2008)
August 30, 2005**

Comment 1:

Details of the capital projects table

Although the capital projects table can not be disclosed in all its detail as quickly as it changes, it is important that there be transparency about how capital projects are added to or removed from the table, and how those on the list are revised from time to time.

We feel that the best way to accomplish this would be through the regular publication of the capital project table, and publication of updates for stakeholders to see whenever changes are significant enough to affect the budget, the likelihood of meeting operational objectives, or relative financial priorities at the IESO.

We recommend that the capital projects table be published on a quarterly basis at a minimum, along with supporting information on the components of each major item and a current progress report on each major item. The quarterly reporting should be coordinated with the Stakeholders Advisory Committee meeting schedule.

Comment 2:

Relationship of capital projects to other priorities and reports

The Market Evolution Program currently has five identified priorities. How each of these is reflected in the capital projects table should be part of the normal disclosure when the

capital projects table is published.

We would recommend that the IESO regularly provide the amounts budgeted for each of the market evolution priorities, such as the five currently identified (Day-ahead issues, Market pricing issues, Ontario resource dispatch issues, Inter-tie scheduling issues, and Facilitation of demand response).

In addition, it would also be helpful to provide a breakout of the major participant-facing market system upgrades: For example, some of our members are impressed with the new MISO web tools and would encourage and support the IESO moving to improve its own web tools.

Similarly, each item's projected impact on the amortization figures in the total cost projections and in projected operating results should be provided, on an annual basis and more frequently if differences are significant.

Comment 3:

Concern about whether allocated resources will be sufficient

In addition to seeking assurance with regard to the prudence of expenditures, market participants also have concerns about whether sufficient resources are being allocated to complete planned improvements and upgrades on schedule. We would not want to see progress on a market evolution priority stopped in its tracks because the resources contemplated in the business plan were under-estimated. A number of participants would need assurances in this regard in order to be fully supportive of the business plan.

Therefore we recommend periodic disclosure of documentation explaining what the IESO expects to be able to accomplish operationally with respect to market evolution, given the resources presently allocated for each 12-month period in the plan.

Comment 4:

Explanation of the relationship between operating and capital costs for the MEP

A generic explanation of the budgeting process for operating expenses and capital expenses and the linkages between the two would be helpful, particularly with respect to each of the MEP priorities. It is unclear to many of us how operating costs for the MEP are converted to capital for the purpose of making budget projections, as well as how they are later converted back to operating expenses for retrospective reporting, within each of the MEP project areas.

...

For further information on this submission, please contact either Jake Brooks (Jake.Brooks@appro.org) or David Butters (David.Butters@appro.org) at APPrO (www.appro.org)

From: PETRELLA Tony -REGAFFCRPSTY [mailto:tony.petrella@opg.com]
Sent: August 30, 2005 4:26 PM
To: stakeholder.engagement@ieso.ca
Cc: HEATON Randy -EM SUPPORT; BARRETT Andrew P -REGAFFCRPSTY; GREEN Barry -REGAFFCRPSTY
Subject: OPG Submission on the 2006-08 IESO Business Plan

Thank you for the opportunity to discuss the IEO 2006-08 Business Plan during the Stakeholder Engagement session on August 24, 2005. OPG commends the IESO's efforts to provide timely business planning information and in identifying the current market issues to be addressed. As requested during the Stakeholder Engagement session, OPG submits the following questions related to the IESO Business Plan dated August 24, 2005.

Question 1: With regard to Slide 18 of the 2006-2007 Business Plan presentation dated August 24, 2005 dealing with budget and forecast costs, could you please provide a breakdown of the "OM&A Program Costs" row for 2006, 2007, and 2008 to identify separately the allocated costs for each of the five Market Evolution Issues, i.e. day-ahead issues, market pricing issues, Ontario resource dispatch issues, inter-tie scheduling issues, and facilitation of demand response. The balance of the OM&A expenditures could then remain aggregated as "other".

Question 2: With regard to Slide 15 of the 2006-2007 Business Plan presentation dated August 24, 2005 dealing with capital project budget and forecast, could you please provide a breakdown of the "Application Changes/Vendor Change Requests" row for 2006, 2007, and 2008 to identify the allocated costs for each of the following Market Evolution Issues - market pricing issues, Ontario resource dispatch issues, inter-tie scheduling issues, and facilitation of demand response.

Question 3: With regard to Slide 14 and 15 of the 2006-2007 Business Plan presentation dated August 24, 2005 dealing with capital expenditures and capital project budgets, could you please confirm that the total major capital projects for each year in Slide 15 is about \$5M less than the capital envelop on Slide 14 for the corresponding year. If the capital expenditures in Slide 14 are correct, could you please provide details on the additional \$5M per year of capital expenditures. Also, it would be helpful if the IESO could provide an indicator for each capital project on Slide 15 that identifies which projects are market participant impactive (i.e. participant will need to make system changes in concert with the IESO). Advance notice will allow market participants to budget appropriately for changes to their processes and systems to accommodate IESO system modifications.

If you have any questions relating to the above, please feel free to call me at 416-592-3036.

.....Tony



Independent Electricity System Operator
Attn: Gary Sherkey, VP Corporate Services
655 Bay Street
Toronto ON
M5G 2K4

August 29, 2005

Dear Mr. Sherkey,

IESO 2006-08 Business Plan

Brascan Power thanks the IESO for the opportunity to comment on its proposed 2006-08 Business Plan as presented at the IESO stakeholder session in Toronto on August 24th last week.

We believe the IESO has correctly identified in its business plan the five key development issues affecting the IESO-administered markets: the efficient dispatch of Ontario resources, the efficient scheduling of imports and exports with neighbouring jurisdictions, the potential introduction of a day-ahead market, the facilitation of increased demand price responsiveness on the demand side and the importance of correct price signals in the IESO-administered markets. On this latter issue, we commend the IESO for its recent developments directed at preventing counter-intuitive prices at times of shortages.

We note that the IESO is proposing to continue to invest to renew and enhance its existing IT infrastructure. We also note that the IESO is proposing not to increase its staffing as it prepares for the connection of new generation and the planned phase-out of coal-fired generation.

We understand from the IESO's presentation that the IESO is proposing to reduce its per megaWatt-hour usage fees in 2006. We support this initiative and believe it will further enhance Ontario's electricity trade with its neighbouring provinces and with the United States.

Brascan Power looks forward to working with the IESO on the development of Ontario's competitive electricity market to the benefit of all Ontarians. If you have any questions on this matter, please ring Peter Beitle of my staff on (819) 561-8014.

Yours Truly

A handwritten signature in black ink, appearing to read "Dan Whyte", is written over a faint, larger version of the same signature.

Daniel Whyte
Director, Regulatory Affairs
(819) 561-8068

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