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October 9, 2009

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
27th Floor
2300 Yonge Street
Toronto, ON M4P 1E4

Dear Ms. Walli:

**Re: Independent Electricity System Operator
Licence Compliance Report for the Third Quarter of 2009**

The conditions requiring the reporting of information to the Ontario Energy Board (the “Board”) are set out in section 6 of the Independent Electricity System Operator (the “IESO”) Licence (EI-2003-0088). The reporting conditions enable the Board to monitor IESO compliance with Licence and other regulatory requirements. The IESO Licence Compliance Report for the third quarter of 2009 is as follows:

1. Section 6.2(a) requires that the IESO provide such information as the Board may require from time to time, enabling the Board to monitor compliance with the conditions of the Licence and any other legislative or regulatory requirements set out in the Licence.

Status:

This quarterly compliance filing fulfills this report.

2. Section 6.2(b) requires that the IESO notify the Board of any material change in circumstances that adversely affects or is likely to adversely affect the IESO’s ability to comply with the Licence, its financial integrity, or its ability to carry out its responsibilities under the *Electricity Act*, as soon as practicable after the occurrence of any such change, but in any event within fifteen days of the date upon which such change becomes known to the IESO.

Status:

- There were no material changes in the IESO’s circumstances that adversely affected its ability to comply with this provision.

3. Section 6.2(c) requires that the IESO provide the Board with any information that is required by the market rules to be provided to the Board by the IESO and, upon request by the Board, with such information produced by a panel established by the IESO, including reports produced by the Market Surveillance Panel.

Status:

- On August 25, 2009, the IESO filed with the Board, its 18 Month Outlook, entitled “An Assessment of the Reliability of the Ontario Electricity System” and its quarterly electricity demand forecast, representing the period from September 2009 to February 2011.
- On September 15, 2009, the IESO provided the Board with the following proposed market rule amendment that the IESO Board of Directors approved at its meeting on September 11, 2009, as well as an impact assessment on the interests of consumers with respect to prices, reliability and quality of service.

1) MR-00348-R00: Enhanced Day Ahead Commitment Process

- This amendment proposes to modify the market rules in section 2.2 of Chapter 7 by identifying the information that registered market participants are required to submit during the facility registration process for the Enhanced Day-Ahead Commitment process (EDAC). This information is important because it is necessary for the operation of the EDAC calculation engine when that engine is solving the optimization of unit commitment over the entire 24 hours of the next day.
- This amendment specifies the obligation for registered market participants to submit to the IESO technical data for non-quick start generation facilities. Additionally, the option is being proposed to permit registered market participants to also register with the IESO additional technical information if the registered market participant would like to have a combined-cycle generation facility considered for modeling as a pseudo-unit model by the EDAC calculation engine.

2) MR-00348-R00-R06: Enhanced Day Ahead Commitment Process – 24 Hour Optimization and 3-part Offers

- This amendment proposes to insert a new Appendix 7.5A in Chapter 7 of the market rules to specify the calculation engine for the enhanced day-ahead commitment process.
- The enhanced day-ahead commitment process introduces:
 - Optimization of commitment and scheduling over 24 hours of the next day;

- Multiple passes of the optimization algorithm to determine the schedule of record;
- Use of 3-part offers to better represent the offered costs for energy.

The enhanced day-ahead commitment process calculation engine performs the optimization. The proposed Appendix 7.5A describes the calculation engine process which undertakes three passes for the optimization process.

3) MR-00356-R00-R02: Generation Cost Guarantees – Interim Changes to Real-time and Day-ahead Generation Cost Guarantees

- This amendment proposes changes to the market rules governing the real-time and day-ahead generation cost guarantee (GCG) programs. Compared to the current GCG program design, the proposed changes are expected to result in more efficient economic outcomes.
- Addressing the inefficiencies associated with the current GCG program design aligns with the Market Surveillance Panel January 2009 Report which recommended that the IESO consider changes to the method of calculating guarantees to improve the effectiveness of day-ahead scheduling decisions.

The proposed changes include:

- Linking the guarantee payment to the market participant's offer price
- Introducing more stringent eligibility requirements for the real-time GCG program
- Removing operating reserve revenues from the guarantee payment
- Revising definitions of parameters used for calculating the guarantee payment.

4. Section 6.2(d) requires that the IESO provide the Board with a copy of the IESO annual report as submitted to the Minister of Energy pursuant to subsection 21(1) of the *Electricity Act*.

Status:

- The IESO annual report for fiscal year 2008 was submitted to the Minister of Energy and Infrastructure and filed with the Board on March 31, 2009.
5. Section 6.2(e) requires that the IESO post the annual report as submitted to the Minister of Energy pursuant to subsection 21(1) of the *Electricity Act* and the IESO quarterly financial statements on its public website.

Status:

- The IESO 2008 annual report was posted on the IESO public website on March 31, 2009.
 - The un-audited financial statements of operations and accumulated surplus for the first two quarters of 2009 are posted on the IESO public website. The results for the third quarter of 2009 will be posted on the IESO public website on or before November 30, 2009.
6. Section 6.2(f) requires that the IESO provide the Board, on or before the end of each calendar year, with a summary of any significant activities related to the development of reliability standards undertaken by the IESO pursuant to subsections 5(1) (f) or 5(1) (g) of the *Electricity Act*.

Status:

- The IESO filed its 2008 reliability compliance report with the Board on December 22, 2008 and since then not undertaken any significant activities related to the development of reliability standards. The 2009 reliability compliance report will be filed with the Board before December 31, 2009.

Please let me know if you have any questions regarding this report. I may be reached at 905-855-6496.

Regards,

/s/ Biju Gopi

Biju Gopi
Senior Regulatory Analyst
Regulatory Affairs
Independent Electricity System Operator

c: Peter Fraser, Sr. Manager, Infrastructure and Renewables