

VIA FACSIMILE AND E-MAIL

January 9, 2004

Mr. Mark Garner
Secretary
Ontario Energy Board
P.O. Box 2319, 26th Floor
2300 Yonge Street
Toronto, ON M4P 1E4

Dear Mr. Garner:

**Re: Independent Electricity Market Operator
Updated Reliability Compliance Filing for Calendar Year 2003**

On December 30, 2003, the Independent Electricity Market Operator (IMO) filed its annual reliability compliance report with the Ontario Energy Board (the "Board") in accordance with the terms and conditions of the IMO's License EI-2003-0088. We have updated the initial report to give an account of additional reliability standards activities undertaken by the IMO in 2003. The additional information is provided under the heading "**New or Revised IMO Reliability Standards and Measures**".

Section 6.2(f) of the IMO's new license requires that the IMO 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 IMO pursuant to subsections 5(1)(f) or 5(1)(g) of the Electricity Act.

The IMO is the Control Area Operator and Reliability Authority in Ontario, member of Northeast Power Coordinating Council (NPCC)¹ and signatory of the NPCC Membership Agreement, and has adopted the North American Electric Reliability Council (NERC) and NPCC reliability standards and compliance requirements. The IMO also administers and enforces the reliability compliance

¹ The IMO is a member of the Northeast Power Coordinating Council (NPCC) and complies with Reliability Standards administered by the NPCC. These standards are particular to the region that includes Ontario.

program in Ontario and participates in various industry forums for the development and administration of operational policies and reliability standards.

This report summarizes the significant IMO activities related to the development and administration of reliability standards for the calendar year 2003. The report is organized as follows:

- i. New or Revised IMO Reliability Standards and Measures
- ii. North American Electric Reliability Council Standards Development
- iii. Northeast Power Coordinating Council Standards Development
- iv. U.S. Legislative Developments
- v. Post-August Blackout Activities

New or Revised IMO Reliability Standards and Measures

The IMO, through its rule making authority, has the ability to set and enforce reliability standards. Through these mechanisms the IMO maintains strict adherence to NERC and NPCC requirements, as well as reliability standards specific to Ontario.

In response to concerns that generator planned outages were at increasing risk of cancellation, a criteria was developed to monitor this process. It is applicable for generating units rated at greater than 100 MW having a planned outage scheduled to occur beyond the first four weeks of an Outlook period and within the first nine months. The following measure was developed: *“The number of planned outages that were not approved, and were not notified by the IMO’s Long-term Forecast & Assessment Department as being at risk at least one month in advance”*. Performance to date is within the standard. Performance in this area is monitored to ensure planning assumptions are viable and to identify potential long-term concerns in the outage planning process.

A comprehensive definition of system assessment criteria was implemented in 2003. This criteria includes all applicable standards and assumptions which form the basis for system planning and facility connection in Ontario. This criteria can be found on the IMO website at http://www.theimo.com/imoweb/pubs/marketAdmin/IMO_REQ_0041_TransmissionAssessmentCriteria.pdf

Load deliverability standards have been defined in 2003. These standards specify the reliability performance which needs to be achieved for connections to the transmission system. The deliverability levels in this document apply equally

to the bulk power system and to local areas of the IMO-controlled grid and provide a consistent level of deliverability across the province based on the amount of load impacted by a contingency event. This standard can be found on the IMO website at

http://www.theimo.com/imoweb/pubs/marketAdmin/IMO_GDL_0021_IMOSupplyAvailabilityGuidelines.pdf

North American Electric Reliability Council Standards Development

Participation in NERC Standards Development Activities

The North American Electric Reliability Council (NERC) is the not-for-profit corporation charged with promoting standards for the reliable operation and planning of the bulk electric systems in North America. In 2003, NERC continued to develop a single set of reliability standards to replace its existing operating policies and planning standards. The new reliability standards and functional certification requirements aim to address bulk electric system planning and operations, and will also include compliance measures for each standard. The IMO participated in various NERC standards development activities, including:

- a) **NERC Functional Model** - defines the functions that need to be performed to ensure the bulk electric system operates reliably. It will also establish the foundation upon which the reliability standards will be based.
- b) **Cyber Security** - to reduce risks to the reliability of the bulk electric systems from any compromise of critical cyber assets (e.g., computers, software and communication networks) that support those systems.
- c) **Balance Resources and Demand** - to maintain Interconnection scheduled frequency within a predefined frequency profile under all conditions (i.e., normal and abnormal), to prevent unwarranted load shedding and to prevent frequency related cascading collapse of the interconnected grid.
- d) **Certification of the Balancing Authority Function** - to ensure that each entity that wants to be recognized as a balancing authority has the capability of performing the responsibilities assigned to the balancing authority function.
- e) **Certification of the Interchange Authority Function** - to ensure that each entity that wants to be recognized as an interchange authority has the capability of performing the responsibilities assigned to the interchange authority function.
- f) **Certification of the Reliability Authority Function** - to ensure that each entity that wants to be recognized as a reliability authority has the capability of performing the responsibilities assigned to the reliability authority function.

- g) **Certification of the Transmission Operator Function** -to ensure that each entity that wants to be recognized as a transmission operator has the capability of performing the responsibilities assigned to the transmission operator function.
- h) **Coordinate Interchange** – to ensure that the implementation of transactions between sink and source balancing authorities are coordinated by the interchange authority.
- i) **Coordinate Operations** - to ensure that the operations of each reliability authority (RA) function are coordinated such that they will not have an adverse impact on the reliability of other RAs and to preserve the reliability benefits of interconnected operations.
- j) **Determine Facility Ratings, Operating Limits, and Transfer Capabilities** - determine facility ratings, system operating limits and transfer capabilities necessary to plan and operate the bulk electric system within predefined facility and operating limits such that cascading outages, uncontrolled system separation and voltage and transient instability are avoided.
- k) **Monitor and Assess Short-term Transmission Reliability (Operate Within Transmission Limits)** - the purpose of this standard is to prevent instability, uncontrolled separation or cascading outages that adversely impact the reliability of the bulk transmission system.

Comments on PJM-Midwest-ISO Proposal for Congestion and Reliability Co-ordination

On June 16, 2003, the IMO submitted a letter to NERC's Operating Committee to register its concern with respect to certain provisions in the PJM-Midwest-ISO Proposal for Congestion and Reliability Co-ordination. The main points registered were as follows:

- a) the approved plans may provide opportunities for some entities to unilaterally declare higher priorities in transmission service on external systems, that may not be afforded to other
- b) the IMO seeks assurance that the use of "reciprocal co-ordination agreements", as indicated in the reliability plans will adhere to, and not change, any obligations already in place via other operating agreements, permit conditions, interconnection agreements, or legislation.

Northeast Power Coordinating Council Standards Development

The IMO participated in the drafting of new or revised NPCC reliability standards, including standards pertaining to NPCC's Reliability Compliance and Enforcement Program, which deal in particular with the sanctions that apply to parties that fail to comply with NPCC standards.

U.S. Legislative Developments

The U.S. Congress is considering enacting legislation to establish an independent, industry-led electric reliability organization to ensure the continued reliability of the interconnected, high-voltage transmission grid in North America. The existing framework of voluntary compliance with NERC reliability standards and operating rules are deemed to be no longer adequate for today's competitive and evolving electricity market.

The IMO, in conjunction with the Canadian Electricity Association (CEA) has filed comments in respect of these effort to develop and enact an energy bill that would provide the appropriate framework to allow for an international solution to the electricity industry reliability issues. In it submission, the parties (the IMO et al.) expressed support for creation of an Electric Reliability Organization (ERO) that could operate on an international basis. The parties believe that the ERO model will ensure and preserve balanced of interests and protect the ERO from being unduly subject to any one stakeholder or government, while respecting the sovereign right of regulators in each country through their respective oversight and remand functions. In addition, since the ERO, as opposed to individual regulatory or legislative bodies, can develop reliability standards, the electricity system can be operated effectively on an international basis.

The Congress was unable to garner enough votes to pass the energy bill prior to the U.S. Thanksgiving recess and there will be no further action on the bill in 2003. It is expected that efforts to pass the bill will resume in February of next year when the second session of the 108th Congress convenes.

Post-August Blackout Activities

U.S. Congressional Hearings

The IMO was invited to participate in the U.S. House of Representative Congressional Hearings in the matter of the August 14 Blackout. The hearings took place over a two-day period on September 3rd and 4th. On the second day of these hearings, the Chief Executive Officers of the affected Independent System Operators (ISOs) were invited to provide oral testimony responding to questions posed by Congress. Mr. Dave Goulding, President and Chief

Executive Officer of the IMO, was part of this panel. Mr. Goulding highlighted Ontario's framework of mandatory and enforceable reliability standards. He contrasted Ontario to the other U.S. ISOs by explaining that Ontario has the authority to not only establish and monitor reliability standards but also to enforce them.

A copy of Mr. Goulding's comments can be found on the IMO Regulatory Affairs Website at http://www.theimo.com/imoweb/pubs/corp/IMO-Testimony-CongressHearings_2003Sep04.pdf

Reliability Information Disclosure and Reporting

The Ontario Market Rules require that, within 10 business days following the resumption of normal market operations subsequent to a suspension, the IMO Board prepare and provide a preliminary report to market participants, the Ontario Energy Board and relevant government authorities describing the circumstances that triggered the suspension, steps taken by the IMO during the course of the event to ensure reliable operations and remedy the cause of the suspension, actions taken by market participants, and conclusions or recommendations to avoid similar future events. On September 8, 2003, the IMO issued a preliminary report pertaining to the August 14, 2003 market suspension in accordance with the Market Rules requirement. The report can be found on the IMO Regulatory Affairs Website at: <http://www.theimo.com/imoweb/news/newsItem.asp?newsItemID=780>

U.S. Canada Power System Outage Task Force Hearings

On December 8, 2003, Mr. Paul Murphy, Chief Operating Officer of the IMO, made a submission before the US-Canada Power System Outage Task Force on behalf of the IMO to, among other things, promote the development of mandatory international reliability standards. In his submission, Mr. Murphy reiterated that:

- a) development of reliability standards must remain the purview of an international electricity reliability organization;
- b) the independent administration and integration of power system and market operations should be maintained and enhanced;
- c) provisions to make reliability standards mandatory and enforceable should be put in place where they do not already exist;
- d) the electricity industry should continue to focus on the existing three-part strategy of prevention, containment and minimization of impact; and
- e) the reliability framework for North America should be built on the strong international institutions and regulatory foundations already in place.

A copy of the submission can be found on the IMO Regulatory Affairs Website at:
http://www.theimo.com/imoweb/pubs/corp/TaskForceSubmission_2003Dec08.pdf

Should you have questions about any of these matters, please feel free to call me at (416) 506-2858.

Yours truly,

A handwritten signature in black ink, appearing to read "Carl Burrell", with a long horizontal flourish extending to the right.

Carl Burrell
Senior Analyst
Corporate and Legal Affairs
Independent Electricity Market Operator

January 9, 2004

