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January 7, 2011

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 Fourth Quarter of 2010**

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 fourth quarter of 2010 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 report fulfils this requirement.
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 December 3, 2010, the IESO filed with the Minister of Energy and 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 December 2010 to May 2012.
- Pursuant to Ontario Regulation 442/01 pertaining to the Rural or Remote Electricity Rate Protection plan, at least 60 days before the end of each calendar year, the IESO is required to provide the Board with a forecast and supporting documentation on of the number of kilowatt-hours of electricity that will be withdrawn from the IESO-controlled grid during the next calendar year. The IESO is also required to provide a copy of the forecast and supporting documentation to Hydro One Networks Inc. On October 28, 2010, the IESO filed its forecast and supporting documentation with the Board and, at the same time, also served Hydro One Networks Inc.
- On November 3, 2010, the IESO filed with the Board its proposed expenditures and revenue requirements and the fees that it proposes to charge market participants in 2011 for review and approval.

On November 11, 2010, the IESO provided the Board with the following proposed market rule amendment that the IESO Board of Directors approved at its meeting on September 10, 2010, as well as an impact assessment on the interests of consumers with respect to prices, reliability and quality of service

i. MR-00370-R00: Limiting Congestion Management Settlement Credit (CMSC) Payments for Exporters and Dispatchable Loads

The amendment would:

- Limit CMSC payments for exporters and dispatchable loads, as recommended in the January 2010 Market Surveillance Panel report.

- It specifies when an exporter or dispatchable load is eligible for a CMSC payment, and how the payment will be calculated.

ii. MR-00374-R00: Replacing the Temporary Suspension of CMSC for Constrained-Off Dispatchable Loads

The amendment would:

- Replace the temporary suspension on energy-related CMSC for all constrained-off dispatchable load facilities that was implemented on August 28, 2010
- Specify that dispatchable loads will not be entitled to constrained off CMSC payments related to ramping, where such payments are caused by conditions and/or actions at the load facility, and not by conditions on the IESO-controlled grid.

On November 11, 2010, the IESO also filed a notification regarding the date the amendments are expected to come into force, and a summary of stakeholder and Technical Panel comments received during the consultation process regarding the impact of the amendments on consumers with respect to the prices, reliability and quality of electricity services.

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 2009 was submitted to the Minister of Energy on March 30, 2010.
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 2009 annual report was posted on the IESO public website on March 31, 2010.
- The un-audited financial statements of operations and accumulated surplus for the first three quarters of 2010 are posted on the IESO public website. The full year statement will be posted on the IESO public website before but no later than March 31, 2011.

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) (d) or 5(1) (e) of the *Electricity Act*.

Status:

- On December 23, 2010, the IESO filed the 2010 reliability compliance report with the Board.

Please let me know if you have any questions regarding this report. I may be reached at 905-403-6906.

Yours truly,

/s/ Maia Chase

Maia Chase

Senior Analyst

Regulatory Affairs and Sector Policy Analysis

Independent Electricity System Operator

c.c. Peter Fraser, Acting Managing Director of Regulatory Policy and Compliance