

IESO Stakeholder Advisory Committee

TO: IESO BOARD OF DIRECTORS

DATE: DECEMBER 1, 2005

FROM: STAKEHOLDER ADVISORY COMMITTEE

SUBJECT: DAY-AHEAD COMMITMENT PROCESSES

This memorandum is to advise the IESO Board of Directors that the Advisory Committee has considered the Day-Ahead Commitment Processes (DACP) design proposal. Of the voting committee members in attendance¹, the majority supported the IESO staff proposal (although a number of these asked for specific emphasis on certain items such as improved demand response programs), however, the generator representatives did not support the IESO proposal, but would be prepared to accept if specific changes were made.

Summary of Stakeholder Advisory Committee positions:

Mr. Picardi and Mr. McMillan, marketers/brokers: Focus is on reliability and it is a start, there is a long way to go. The DACP should be as transparent as possible so that marketers and brokers can manage their business.

Mr. Bentz and Mr. Thorne, distributors: Agree reliability is an issue, this is a reasonable solution with the following caveats: 1. focus on demand response as part of the solution; 2. transparency, accountability, reporting and understanding of pricing impacts; 3. accountability for use of resources as a result of implementing the DACP.

Mr. Whyte and Mr. Boland, generators: Continue to hold objections contained in the APPrO letter to the IESO; however, they would support the DACP only if the IESO commits to equal and coincident effort to remove 12X ramp rate and allow inter-ties to set price. It is the generators view that these changes could be made very quickly. Mr. Whyte commented that IESO staff and stakeholders did a "tremendous job" to put together a reliability proposal so quickly after the events of summer 2005.

Mr. LeMay, wholesale consumer market participants: Supports DACP but remains concerned regarding price impact. Need to implement to see if it works. Expressed need to keep discussion at high level and not do the Technical Panel's job.

¹ Mr. Chuck Stradling, representing Commercial Consumers, was absent.

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Mr. Humphries, embedded industrial consumers: support DACP to address reliability issues with comment that work on market issues should not hold up reliability initiatives.

Mr. Dorey, transmitters: Accept these as necessary and affordable measures subject to 3 caveats: 1. no convincing argument has been presented to establish that DACP is needed on a daily basis; 2. monitor costs and pricing impacts; and 3. keep track of impacts and report on them for post mortem in fall.

Ms. Girvan, residential consumers: Support reliability as the highest priority, noting that it is a temporary measure from which we can all learn, and that further work needs to be done on demand response.

Mr. Lourie, environmental sector: Adopted Ms. Girvan's comments and supported the focus on reliability.

Summary of Preceding Discussion

IESO management presented a motion to be made to the IESO Board at its next meeting seeking authorization to proceed with the DACP which is to be subject to a sunset clause effective next fall. Any further use of the DACP would be based on the review and consideration of the experiences with the DACP in the summer of 2006. The IESO intends to continue discussions and work relating to a Day-Ahead Market and market pricing issues.

Mr. Boland suggested that the Board resolution should require the IESO to deal with current market pricing issues consistent with the proposed DACP timetable; he was not content to accept the proposed wording that current issues be addressed in "a timely manner". Acknowledging that reliability is an appropriate objective, there remained a need for further discussion as to whether the DACP should be invoked daily or on an as needed basis. Mr. Boland said that as a generator his concern is that as a temporary measure it not be incorporated into ongoing systems and that it only is used when needed.

Mr. Whyte agreed with Mr. Boland that the IESO move forward at the same time with market pricing issues such as 12X ramp rate and inter-ties setting price. Mr. LeMay said that the industrials wouldn't support removal of 12X ramp rate and this should be conveyed to the Board. Mr. Whyte added that he would vigorously support the introduction of a capacity reserve market which would help to address the current reliability issues.

Mr. LeMay said that industrial consumers were lukewarm on the motion itself and had no strong opposition to the DACP. From his perspective we need to try it to see if it

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works. Mr. LeMay said that he would strongly oppose the introduction of a capacity reserve market.

Mr. Boland said that while he understood Mr. Whyte's desire to adopt a capacity reserve market, he was limiting his comments to what can be done quickly in conjunction with the DACP such as 12X ramp rate and inter-tie pricing. Mr. Whyte clarified that he was seeking a commitment that the IESO would address the capacity reserve issue without specifying a specific timeline for taking action.

Mr. Bentz sought transparency in the process particularly as it relates to forecast errors that may result in over-commitment of resources and reporting on pricing implications. He requested an analysis of the capital cost of the program and that the expected price impact be weighed against the increase in reliability. In the discussion regarding a cost/benefit assessment of the proposal Mr. Campbell commented on the difficulty of valuing reliability initiatives. While it was clear that DACP would improve system reliability through improved assurance that imports would flow, he could not place a specific dollar value on the benefit of improved reliability. Mr. Bentz enquired as to how the IESO would set the penalty for failed imports; Mr. Kozlik clarified that the proposal contemplates a "charge", and not a penalty, to avoid a disincentive to transactions.

Mr. Boland noted that the IESO had recently released statistics regarding Day-Ahead forecasting error and that some of the statistics were "alarming". Mr. Murphy explained that the IESO had a 3% error target in its performance measures and put the larger forecast errors during the summer in context. In Ontario on a hot summer day a 1 degree temperature increase would increase demand by 380 MW and weather prediction models have a margin of error greater than a degree.

Mr. Picardi said that it would be useful to implement the process as early as May 1 to provide time for the IESO and participants to gain experience with the DACP prior to the summer period. He acknowledged the strong case for reliability. He noted that the proposed DACP would address artificial price increases as a result of import failures, and that to be fair it should be noted that artificial mechanisms that have the tendency to suppress price volatility which is an appropriate price signal need to be addressed as well. As a matter of process rather than taking action now, he suggested that the executive summary to the Board should note that there are other pricing issues which need to be looked at and that stakeholders are looking for comfort that they will be addressed. Mr. McMillan supported Mr. Picardi's comments.

Mr. Dorey asked how the DACP payments would interact with the OPA contracts, observing that it was a floor price being imposed on what was already a floor price. In response and without getting into the details of the contracts, Bruce Campbell said that

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the initiative had a sunset clause of fall 2006 before any of the OPA contracted generators would be in-service.

Mr. LeMay agreed that one cannot put a price on reliability. Equally important, is the message that the price of electricity is very important too and has significant consequences for industrial consumers. In terms of the other market pricing initiatives for example the 12X ramp rate and the imports setting price, he would not support solutions that increased price. Mr. Boland suggested to Mr. LeMay that the purpose of price signals should be to have an accurate reflection of the economics at the time, and if prices needed to be kept 'low', this should be accomplished in other forums. Mr. LeMay responded that we currently didn't have anywhere close to a market and this was reflected in the few prices that we could get.

Mr. Thorne said that if uplift is increasing distributors will have a concern as the distributors hold the variance between the fixed uplift price paid by consumers versus the actual uplift charged but that it was an issue to discuss with the OEB. Mr. McMillan commented that he was shocked at the lack of demand side response and that to encourage response would require accurate pricing.