

25 Adelaide St. E
Suite 1602
Toronto ON, M5C 3A1



APPrO
ASSOCIATION OF
POWER PRODUCERS
OF ONTARIO

September 20, 2006

Mr. Dave Goulding
President & CEO
Independent Electricity System Operator
655 Bay Street, Suite 410
Toronto, ON M5G 2K4

Dear Mr. Goulding,

I am writing in regard to the recent IESO Stakeholder Advisory Committee (SAC) meeting, and the 12x Ramp Rate issue.

As you know, over the past many months the Association of Power Producers of Ontario (APPrO) and a number of its members have been very involved with the IESO and other stakeholders in the Ramp Rate discussion. We have tried to work in a spirit of cooperation and have invested significant effort in considering options to resolve the 12x ramp rate issue.

While the proposed interim 3x ramp rate solution is not our preferred choice, we believe the staff recommendation is one that should now be supported by the IESO Board. The IESO has taken a considered and responsible approach over many months to get input from market participants before a decision is made, recognizing ultimately that decision making authority rests with the IESO. There have been nine or ten Market Pricing Working Group meetings this year alone, and two SAC meetings where this has been a major topic. It is now time to determine an outcome and to move on to other equally important and pressing matters concerning electricity pricing.

The staff report is thoughtful both in its findings and recommendation, as we noted on September 5th. As always, the IESO staff has acted in a professional manner, and they deserve to be complimented on the way they have handled what has become a very contentious matter.

We well understand that pricing issues can be complex and challenging at many levels.

Despite the demonstrated extremely small net impact of a 3x ramp rate on overall prices, consumers will argue that they will be paying generators more and getting nothing in exchange. What they get in exchange is a system that brings the returns to generators closer to the value provided and gives them some incentives to increase ramping capability which will increase their chances of being dispatched. With the increase in wind capacity on the system, ramping capacity will be needed more. Lack of appropriate ramping capacity in that case could increase costs for all consumers, though the cost increase would be hidden in the CMSC.

As we have suggested, a movement to a 3x ramp rate is step in the right direction for the reasons stated by the IESO including:

- It reduces one of the differences between the dispatch and pricing algorithms, therefore improving the quality of the price signal;
- It increases price volatility which has been artificially dampened by the 12x ramp rate since market opening;
- It brings the returns to generators closer to the value they provide;
- It provides some incentive to increase ramping capability which is an important system need;
- It begins to address some of the Ontario market inefficiencies identified by the OEB's Market Surveillance Panel.

We note that going forward a DAM should mitigate the ramping problem by scheduling generators to address the predictable elements of ramping. DAM is a major market restructuring effort, perhaps to be accompanied by another in the form of LMP. These market design efforts will take up the IESO's capacity, which is better placed in these areas than in making major changes to accommodate a ramping solution.

Therefore, we suggest that there has been sufficient discussion around the issue and the alternatives, and we are prepared to respect and to concede to the IESO's judgment in this matter as expressed in its paper, and to support this as an appropriate interim solution.

I would be remiss if I did not address recent and regrettable censure of the IESO stakeholder processes as not serving some consumer interests and reflecting a "systemic bias in favour of electricity suppliers".

This latter statement is simply so incorrect that it must be discarded out of hand. Indeed, there isn't a stakeholder around the table who has not at one point or another been negatively affected or disappointed by an IESO decision. Despite this, hitherto no one has attacked the process as inadequate or biased simply because they were disappointed by the outcome.

Even when we have been disappointed in decisions, APPrO members have made it a point to remain engaged, not only because it is in our interest as market participants but also because we believe it is in the collective interest of the sector at large, and the overall economy of which we are an important part.

No stakeholder process can be perfect, especially in this sector. When decisions are made with respect to electricity supply and consumer interests, it would be naïve to think that all interests will always be aligned, and certainly wrong to think that one side should automatically be subordinated to another.

In its supplementary decision last year related to the proposed stakeholding process forming part of the IESO's Fiscal 2005 Fees, the Ontario Energy Board noted that the primary role of the SAC is "to provide the IESO Board and Executive with policy level advice, while the primary role of other IESO stakeholder engagement mechanisms and processes is to seek advice from stakeholders on operational and implementation-related decisions at a more detailed working level."

The SAC and the IESO's other stakeholding processes were intended to respond to the removal of stakeholder representatives from the IESO Board of Directors, the requirement in the new section 13.2 of the Electricity Act, 1998 for the IESO to establish new processes, and to address concerns raised by stakeholders about IESO stakeholding. On the other hand, it is clear that stakeholder engagement is an aid to decision making and not a replacement for it. Decision making authority rests with the IESO under the Electricity Restructuring Act.

It is instructive that the Board took note that stakeholders were broadly favourable in their reaction to the IESO's 2005 proposals on stakeholder engagement, and that the process provided ample opportunity for stakeholder input.

It is certainly justifiable to urge continuous improvement of the process over time, and to seek improvements where appropriate – but of course this has to take into account consideration of diverse stakeholder needs, interests and priorities, fairness of process and outcomes, transparency and the need for shared understanding among all involved on the topics at hand.

Generators aren't interested, frankly, in a one-sided discussion in which their interests are subordinated to the notion that they exist solely to serve the economy and should be content to be compensated for less than they are legitimately entitled. Furthermore, this premise is inconsistent with government policy that ratepayers pay the true cost of the electricity they consume.

Generators may have differences of opinion on any number of issues with the IESO and other market participants, but we are prepared to play our part, and

continue to work cooperatively within the IESO's stakeholder engagement and decision-making processes which we believe are fundamentally sound.

Sincerely,

A handwritten signature in black ink, appearing to be 'David Butters', written over a large, faint oval shape.

David Butters
President

Cc: Sam Mantenuto; APPRO Board of Directors