

IESO SENIOR MANAGEMENT UPDATE

To: Stakeholder Advisory Committee
Date: September 5, 2006
Subject: Day-Ahead Commitment Process Assessment (SE-22)

Information Item

Objectives of the DACP

During the design of the DACP in the fall of 2005 there was one prime design objective laid out by the IESO and stakeholders.

Ensure reliability through day-ahead import and generator commitment

1. Provide maximum opportunity for scheduling imports day-ahead
2. Reduce import failures
3. Ensure sufficient internal generation resources are on-line

The Assessment of the DACP being carried out through SE-22 will determine whether this objective has been met, and whether the objective has been met in a cost effective manner. To support this effort, the IESO has been working with the stakeholders on SE-22 to develop a set of data quantities to be reported weekly. These reports can be found under DACP assessment at:

<http://www.ieso.ca/imoweb/dacp/dacp-index.asp>

An updated DACP report for the period June 1, 2006 to August 15, 2006 is attached to this document for the benefit of the Stakeholder Advisory Committee.

In addition, SE-22 will continue to meet through September and October on the assessment of the DACP.

The following paragraphs describe the measures that are being tracked to support this effort.

Provide maximum opportunity for imports to schedule day-ahead

It is important that imports continue to be available to satisfy demand in real time. In order to determine that this was the case during the running of the DACP the following measures are being tracked:

- the total amount of imports, both day-ahead and real time that were scheduled successfully in real time
- the contribution of day-ahead imports to the total volume of imports scheduled
- the success of day-ahead imports scheduled in the hour ahead predispatch to be able to flow in real time compared with the success of real time transactions.
- specifically report on the success of day-ahead transactions scheduled in the hour ahead predispatch flowing in real time, when in those hours where they are most needed for reliability.

While having imports available to meet demand in real time is a reliability objective of the DACP, any incremental increase in the total cost of intertie offer guarantee payments to the market compared to a similar period in 2005 shall be used to help gauge the cost of providing this benefit.

- compare the average cost per MWh of imports scheduled during DACP to a similar period in 2005 taking into account differing system conditions
- report on the cost of offering financially binding status. The costs of offering financially binding status for MISO will not be available until September.

Reduce import failures

Import failures between the hour ahead predispatch and real time can have a significant impact on reliability. By scheduling imports day-ahead, the DACP allows importers sufficient opportunity to take the appropriate measures to make sure that their transactions will flow. The following measures will be used to assess the ability of the DACP to reduce import failures between hour-ahead predispatch and real-time.

- Compare the total import failures as a proportion of the amount of import MW scheduled during DACP relative to the similar period in 2005.
- Report on the total failure rate of imports when most needed for reliability during DACP relative to a similar period in 2005.
- Specifically report on the failure rates of day-ahead scheduled imports, compared to real time scheduled imports, on days when they were most needed for reliability

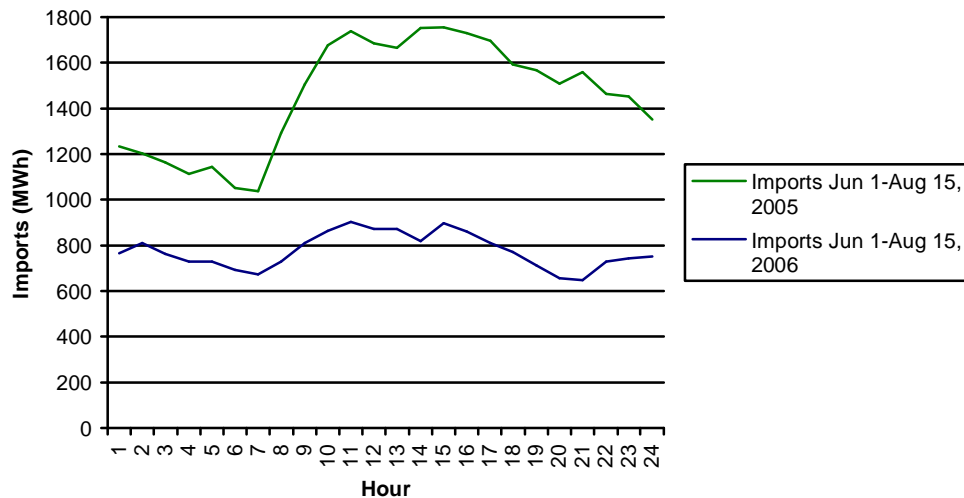
Ensure sufficient internal generation resources are on-line

While existing programs such as Spare Generation On Line (SGOL) were implemented to ensure sufficient internal generation would be on line in real time, the DACP Combined Generation Cost guarantee (GCG) sought to provide enhanced day-ahead certainty to both generators and the IESO with respect to generator commitment. The cost of this enhanced certainty can be calculated as the average incremental increase in cost per start for SGOL and GCG starts.

Another means of ensuring sufficient internal generation on line, is the improvement in the predispatch price signal compared with real time by showing the convergence between predispatch price as a function of the number of hours ahead of the delivery hour for DACP and the same period in 2005.

DACP Activities June 1 – August 15, 2006

Volume of Imports



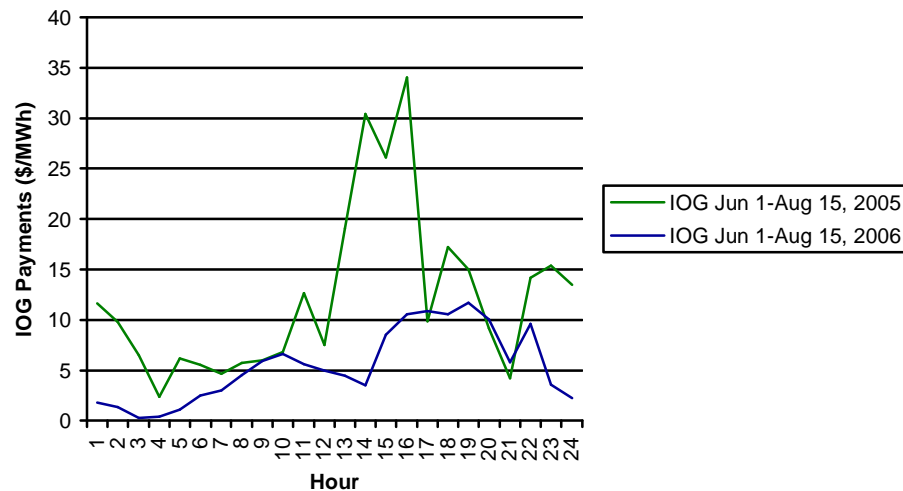
The graph above shows the average hourly import volume for June 1 – August 15, 2006. The total volume of imports is lower in 2006, relative to 2005, which is not unexpected due to the fact that overall average hourly demand for this period is approximately 900 MW lower than it was in the same period in 2005. (see table below)

Year	Average Hourly Demand
2005	18,994
2006	18,084

Day-Ahead imports accounted for only 4.67% of the total import volume for June 1 – August 15, 2006.

Intertie Offer Guarantees

Average Hourly Intertie Offer Guarantee Payments



The graph above shows the average hourly cost of IOG payments to imports for June 1 – August 15, 2005 and 2006.¹

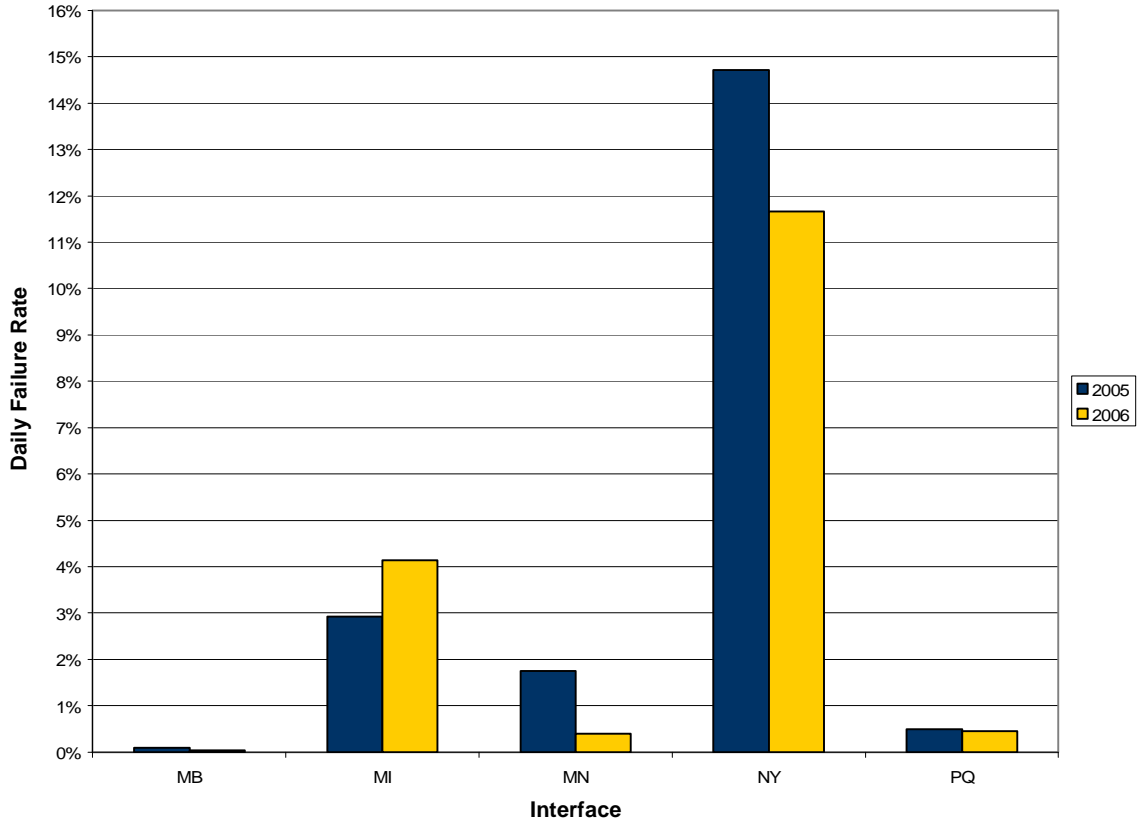
Estimated day-ahead IOG payments cost \$33.44 per MWh of imports scheduled day-ahead for June 1 – August 15, 2006. This is compared to \$6.70 per MWh of real-time transactions scheduled in the same period of 2006. The estimated average IOG cost of scheduled imports, both day-ahead and real-time, is \$7.66 per MWh. This compares favourably with the average IOG cost of \$17.70 per MWh for the same period in 2005.

¹ Note that these numbers for 2006 do not take into account Urgent Market Rule Amendment MR-00322 which was implemented in early June to ensure that the guarantees and protections afforded by the day-ahead IOG for an import transaction receiving a DACP schedule is only for the MW quantity specified in the DACP schedule for that transaction. The impact of this rule amendment on the overall trends of day-ahead contributions to IOG payments, however, is not significant.

Transaction Failure Rates

Daily Import Failure Rate by Interface, June 1 – August 15

Summer Import Failure Rates - 2005 vrs. 2006



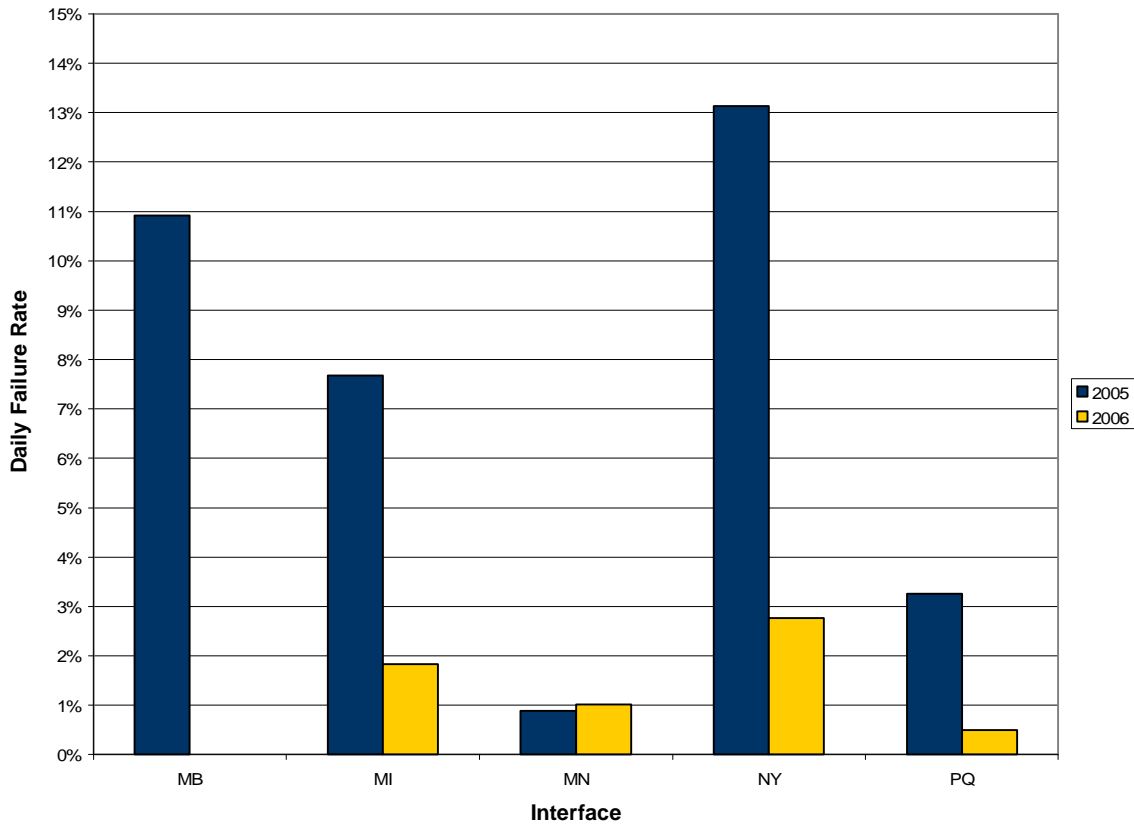
Total Failure Rate 2005: 3.60%
Total Imports(MW): 2914967
Total Failures(MW): 104923

Total Failure Rate 2006: 3.07%
Total Imports(MW): 1415702
Total Failures(MW): 43505

There have been 552 MWh of import failures between the hour-ahead schedule and real-time for imports with day-ahead schedules in 2006 thus far. Therefore the “total failure rate” figure consists entirely of real time failures.

Daily Export Failure Rate by Interface, June 1 – August 15

Summer Export Failure Rates - 2005 vrs. 2006



Total Failure Rate 2005: 11.58%
Total Exports(MW): 1882263
Total Failures(MW): 217952

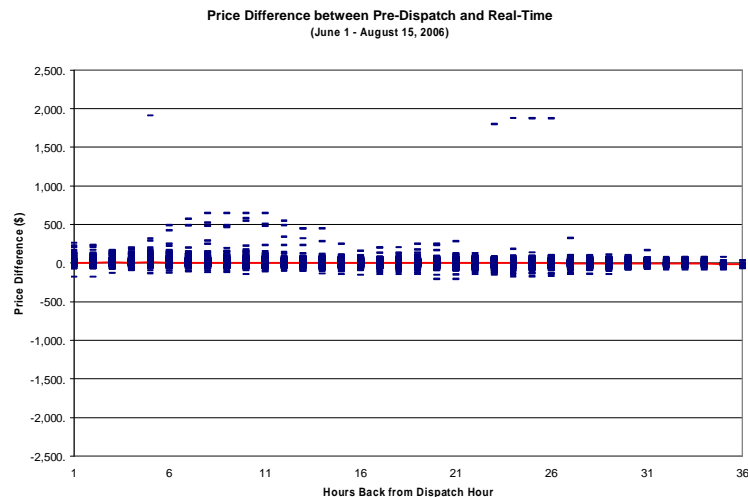
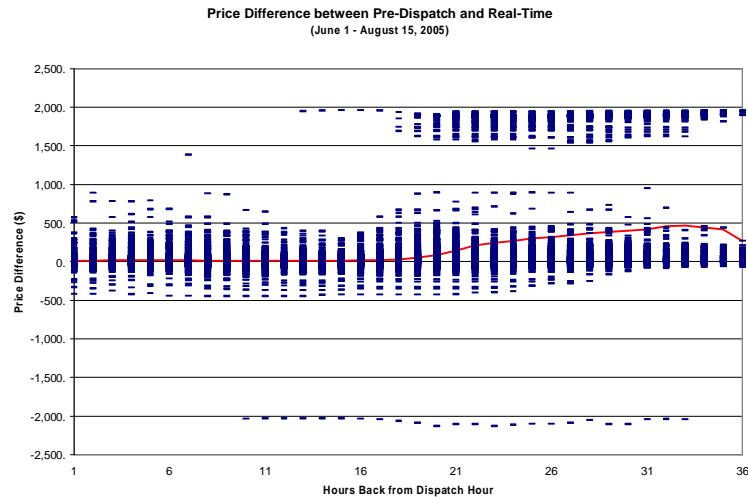
Total Failure Rate 2006: 2.50%
Total Exports(MW): 2580285
Total Failures(MW): 64595

Based on the data collected so far, there has been a substantial decrease in the number of export failures relative to the same period last year. This decline is most likely attributed to the export failure charge.

Items of Interest

Price Convergence

The graphs below show difference between the pre-dispatch price and real-time price for forecasts going back to 36 hours before the hour in which the energy was delivered, as well as the average price difference for each forecast. For each hour before real-time, the graphs show not only the range of price differences, but also their concentration, in order to give a sense of the degree to which the each forecast is a reliable indicator of real-time price. Before DACP came into effect, there were sizeable price differences and wide bands of concentration of these differences. The introduction of DACP has shown a significant reduction in the variance of price differences and a corresponding increase in the concentration of these differences around the real-time price.



Import Failure Rates

The graph below shows the average hourly failure rates for the top-3 peak demand days for summer 2005 and summer 2006 (to date). The top-3 demand days for 2005 were June 28, July 12, and July 13. The top-3 demand days for 2006 were July 17, August 1, and August 2. The total failure rate for imports scheduled on the top-3 demand days in 2006 was only 2.83%, compared to 5.43% for the top-3 demand days in 2005.

