

IESO SENIOR MANAGEMENT UPDATE

To: Stakeholder Advisory Committee

Date: February 6, 2008

Subject: Briefing note on IESO Response to the Market Surveillance Panel (MSP) Report

Information Item

Summary of Recommendations

The following recommendations arise from the analysis in this report. They focus on issues of price fidelity and market efficiency, although we expect that several may also enhance reliability.

Recommendation 1-1 (Chapter 1 Section 2.4.3)

The Panel encourages the IESO to continue to review the forecasting process with wind generators and determine methods to reduce forecast errors. Such generators should have incentives (positive or negative) to encourage accurate forecasting.

IESO response: This recommendation is currently being addressed at the Stakeholder Engagement Plan SE-29. With increasing penetration of wind on the system, accurate short-term wind energy forecasts are necessary for effectively managing potentially large fluctuations on the system.

Recommendation 2-1 (Chapter 2 Section 2.1.2.3)

Export curtailment due to 'adequacy' has an effect of suppressing the market price during times of serious scarcity since the curtailed amount is removed from the market schedule, thus distorting the market price signal. The Panel recommends that the IESO not remove the curtailed amount due to 'adequacy' from the market schedule.

IESO response: There are several issues regarding the appropriate market price during curtailment of exports due to adequacy. Currently the IESO has undertaken a related review of the scheduling and activation of Operating Reserve. We will combine the study needed to investigate this recommendation

in this effort. Any possible outcomes resulting from that review will be discussed at the Market Pricing Working Group (MPWG).

Recommendation 3-1 (Chapter 3 Section 2.3)

Consistent with prior recommendations directed at improving the IESO load predictor, whose algorithm imputes changes in non-dispatchable load that can induce consumption inefficiency and forecast errors, the Panel recommends that the IESO review its load predictor methodology to determine if it is a source of persistent under-forecasting of demand.

IESO response: The IESO agrees with this recommendation and has undertaken an initiative to improve load predictor performance. This is consistent with the recommendation [#4 from the November, 2006 to April, 2007 MSP report](http://www.oeb.gov.on.ca/documents/msp/msp_report_20070810.pdf) (http://www.oeb.gov.on.ca/documents/msp/msp_report_20070810.pdf)

Recommendation 3-2 (Chapter 3 Section 2.5)

(1) The IESO should expedite completion of the necessary agreements with Hydro One, the Midwest ISO and ITC Transmission for operation of the Phase Angle Regulators on the Michigan intertie. The IESO (and Hydro One) should also complete necessary staff training as soon as possible. Any improvement on the spring 2008 implementation target would have positive efficiency (as well as reliability) effects on the Ontario (and Midwest ISO) system and any slippage would have the opposite effects.

IESO response: The IESO agrees with this recommendation and is currently working towards making the Phase Angle Regulators operational.

(2) Hydro One should work towards developing ratings that will safeguard the Phase Angle Regulators and provide operationally useful Limited Time Ratings as soon as possible.

IESO: The IESO will ensure that Hydro One is aware of this recommendation.

Recommendation 3-3 (Chapter 3 Section 3.1)

The MSP recommends the IESO begin investigation of a 15 minute dispatch algorithm to enhance the efficiency of the market.

IESO response: The IESO will be initiating a review of the current real time dispatch and pricing to address the drivers for load following and ramping services in the context of the generation fleet of today and tomorrow.

Recommendation 3-4 (Chapter 3 Section 4.1)

The IESO should initiate a rule change to allow the recovery of self-induced congestion management settlement credit payments which are made to generators when they are unable to follow dispatch for safety, legal, regulatory or environmental reasons.

IESO response: The IESO intends to bring this issue to the Technical Panel by the end of Q3 2008, as a market rule amendment submissions, for determination whether consideration is warranted.

Recommendation 3-5 (Chapter 3 Section 4.2)

The IESO should initiate a rule change to make Intertie Offer Guarantee payments subject to offsets where affiliated market participants are simultaneously importing and exporting.

IESO response: The IESO intends to bring this issue to the Technical Panel by the end of Q2 2008, as a market rule amendment submissions, for determination whether consideration is warranted.

Recommendation 3-6 (Chapter 3 Section 4.3)

It is important for the efficiency of the Ontario electricity market that Hydro One attempt to complete the Queenston Flow West(QFW) transmission expansion as soon as practicable. The ability to fully utilize 'bottled' generation in the Niagara region and maximize economically viable imports with New York (and Michigan) will enhance the efficiency (and reliability) of the Ontario market.

IESO response: The IESO concurs with the MSP with regards to the importance of the improvements to the QFW transmission expansion.

Recommendation 3-7 (Chapter 3 Section 4.4.3)

To the extent possible in its stakeholder consultation on embedded generation, the IESO should consider opportunities to reduce inefficiency through the development of the

capability for accurate forecasting of embedded generation production, which may require the provision of real-time production and related information (e.g. outages).

IESO response: This issue is currently being addressed in Stakeholder Engagement Plan SE-57. The IESO has prepared a discussion paper to facilitate the discussion with stakeholders on the integration of these and other embedded generators into the reliable operation of the IESO-controlled grid and the efficient administration of the markets.

Recommendation 3-8 (Chapter 3 Section 4.4.6)

The Panel recommends that the Ontario Power Authority(OPA) structure future contracts to maintain the energy market price as the driver for production decisions (for example, using a strike price structure similar to the payment provisions in the existing Clean Energy Supply (CES) contracts.

IESO Response: The IESO concurs that future contracts should be structured to maintain the energy market price as the driver for production decisions. The IESO is consulting with the OPA towards that goal.

Recommendation 4-1 (Chapter 4 Section 2)

(1) The OPA should create more transparency regarding the ongoing monthly payments and energy delivered for each of its various procurement programs in order to promote a better understanding of the costs and effectiveness of these programs and to help market participants gain a better understanding of the component costs of the Global Adjustment.

IESO Response: Where appropriate, the IESO is in support of greater transparency in the market.

(2) Similarly, the IESO should consider providing aggregate monthly payments associated with Ontario Power Generation's regulated baseload assets, as it currently does for the OPG Rebate.

IESO response: Currently the IESO publishes information that allows participants to calculate these payments. The IESO will explore with OPG whether there are more effective ways of presenting this information to the market.