

Sector Briefing Note

To: Stakeholder Advisory Committee
From: Paul McMillan, Gary Wight – Retailers and Marketers
Date: June 3, 2009
Subject: **GREEN ENERGY ACT**

Item for table discussion

Each Stakeholder Advisory Committee member has been asked to provide this briefing note to address two questions:

(a) How do you see the Green Energy Act impacting your sector?

The following are the key impacts to retailers and marketers:

1. Disconnect between HOEP Price and Feed in Tariffs Rates (“FIT Tariff”)

With the introduction of the FIT Tariff, it is expected that this will lead to a continued increase of higher priced “non-flexible” generation which must be scheduled onto the integrated system and which costs would be absorbed by the Global Adjustment account. If these prices remain to be the highest in the overall portfolio of supply to the Province, then there remains a possibility that costs associated with those found in uplift may exceed the marginal market clearing price. This could result in a phenomenon where the future price for electricity as measured by Hourly Ontario Energy Price (“HOEP”) will decrease as the level of production from renewable resources (particularly wind generation) increases. This will have an impact on the forward price values for electricity

2. Meaningful Commodity Exposure Management

Many wholesale, retail and industrial customers who have entered into proactive energy financial or physical arrangements to manage adverse impacts in their commodity costs are faced with having to absorb the impacts of a negative Global Adjustment related to Ontario Power Authority supported asset investments. The Global Adjustment is not an instrument which can be cleanly hedged.

3. Excess Base Load Generation and Intertie Access

Over the last six weeks with the significant change in load demand experienced in the Province, Excess Base Load Generation has become very significant as access to intertie markets has not been able overcome generation which is prepared to bid negative HOEP prices to maintain stable generation levels. These kinds of events are likely only to increase as a result of the impact of the Green Energy Act and could result in distorted

signals for future prices and will require the IESO to find mechanisms to enhance dispatch scheduling and place greater emphasis on Inter-tie access and commerce. The lack of dispatchable resources results in inappropriate clearing prices for assets which have the ability to respond stabilize the system.

Are there specific actions the IESO should consider to assist your sector in Green Energy Act implementation?

The following actions should be considered by the IESO:

1. Price Formation

The IESO should consider taking a lead role to lead work related to in working with others (OEB, OPA and Ministry of Energy) in developing and implementing structural changes that would allow the HOEP to reflect the true “all in” price of energy so that there is a greater likelihood that decisions by all consumers are made in a manner which reflects the full cost associated with the Province’s portfolio of supply, including the cost of energy attributable to the FIT which is absorbed by the Global Adjustment.

2. Intertie Scheduling

Under the current supply dynamics the ability to transact at the Intertie of various markets becomes more important. With the likely of greater intermittent generation on the system, then being able to adjust to markets which can respond in a timely manner will be valuable. The IESO should review and assess with the stakeholders the need to introduce inter-hour (15 minute) dispatch schedules and 60 minute mandatory bidding windows. These adjustments would better accommodate the variability associated with green energy.

3. Criticality of Forecasts

Forward price development over the next three years will be quite uncertain as the level of incremental new energy and the implementation of a “cap and trade” will affect discovery. The IESO will need to assist in developing better price transparency by being responsible for the development of a geographic specific centralized wind forecasts, determining levels of curtailment and excess base load generation, and develop meaningful forecast of the impact of the FIT Tariff.

This includes extending its forecast of supply and reliability to time frames of at least 36 months in duration along with a full disclosure of the assumptions upon which its predictions are formed.

4. Consider Its Role In A “Cap and Trade” Market Environment

The IESO should consider the impact of green credits and the implementation of “Cap and Trade” on price formation and its impact to HOEP.