

IESO Stakeholder Advisory Committee

TO: IESO BOARD OF DIRECTORS

DATE: November 12, 2009

FROM: STAKEHOLDER ADVISORY COMMITTEE

SUBJECT: BRIEFING NOTE

The purpose of this memorandum is to update the IESO Board of Directors on the highlights of the discussion from the October 28th Stakeholder Advisory Committee meeting. All members of the Stakeholder Advisory Committee were in attendance at the session with the exception of Mr. Brian Bentz, (representing Distributors). Mr. Richard Horrobin (representing Generators) attended via teleconference, along with a few other stakeholders.

As well, IESO Board Members in attendance were:

Ms. Roberta Brown
Mr. James Hinds – Chair
Mr. Dave Cassivi
Mr. Robert Chiarelli
Ms. Angela Ferrante
Mr. Rudy Riedl
Mr. Howard Shearer
Mr. John Wiersma

Agenda Item No. 3: Senior Management Update

A number of items were reviewed and the briefing notes are posted on the web. Items reviewed were:

- (a) IESO Response to latest Market Surveillance Report by Mr. Bruce Campbell
- (b) Update on asset backed paper by Mr. Ted Leonard – a briefing note is not posted on this however Mr. Leonard's update has been captured in the meeting minutes. Mr. Leonard responded to a comment from Mr. G. Wight that any appreciation in the notes that are held in the transmission rights (TR) market will remain in the TR market.
- (c) Advanced closure of the coal plants and reliability assurance by Mr. Bruce Campbell
Mr. Campbell concluded that that this does not appear to cause any reliability concerns - more details are in the briefing note.
- (d) Smart Metering and Meter Data Management & Repository (MDM/R) by Mr. Bruce Campbell
In going over the note, Mr. Campbell acknowledged Mr. Paul Ferguson with Newmarket – Tay Hydro. He mentioned they are a leader in this area and now have all their residential customers completed.

(e) Public Sector transition to market prices by Mr. Bruce Campbell

As the public sector representative on the committee, I support Mr. Campbell comments that there has been a considerable amount of education done with the Public Sector. Mr. Campbell added this education has been in combination with the LDC's.

(f) Summer market experience including surplus generation by Mr. Ken Kozlik.

The presentation by Mr. Kozlik was very informative and prompted good discussion within the committee.

A question was asked by Mr. Humphries regarding the predictability of wind and when wind assists with the hotter days. Mr. Kozlik responded that traditionally on hot days in the summer when peak conditions occur, there is not a lot of wind.

Mr. Schembri asked if there was correlation between wind contributions and baseload generation surplus issues. Mr. Kozlik responded that there are definitely relationships and cited the example in March and April when there were strong wind days and at the same time the nuclear fleet was being asked to manoeuvre.

Mr. Campbell responded to a question from Mr. Horrobin on further efforts to address the existing wind generation in terms of managing surplus baseload generation. Mr. Campbell stated there was a range of resources that contribute to this and that the IESO was working with the OEFC and OPA.

Mr. Horrobin followed up and asked if there would be a 60-day forecast for surplus baseload generation, in addition to the 30-day forecast that the IESO is currently producing. In response Mr. Kozlik acknowledged that this could be helpful although there would be more risk in longer forecasts.

In reply to Mr. Schembri's question on how to forecast embedded wind generation, Mr. Kozlik stated the IESO is installing a centralized wind forecasting tool.

(g) Eastern Interconnection Planning Collaborative (EIPC) Proposal by Mr. Bruce Campbell

(h) Other

Mr. Campbell also updated the committee on the upcoming IESO 2009 Customer Satisfaction Survey, the recent successful Settlements Audit, some changes in the IESO roles on the Stakeholder Advisory Committee, and the IESO Business Plan submission to the OEB.

Agenda Item No. 4: Maximum Adjustment Period for settlement statements by Ms. Karen Backman

Ms. Backman asked the Stakeholder Advisory Committee to recommend whether to proceed with a maximum adjustment period and that the IESO would also appreciate any recommended period for the sunset clause.

Some of the committee members are not market participants and are not directly impacted by this, and did therefore not provide specific recommendations. All members at the meeting had a good discussion and provided comments on this subject. All the comments have been captured in the meeting minutes.

A summary of the recommendations from the committee has been provided to the IESO management and is attached for your information.

Agenda Item No. 5: Alternative Technologies Program by Mr. Darren Finkbeiner

Mr. Finkbeiner explained that the IESO was looking for input from the committee as to their views on the proposals for alternate technologies.

Mr Witjes asked what historical approach has been used in integrating new technologies via the IESO. Mr. Finkbeiner responded that past technologies have been familiar to the IESO, slower to implement which gives more time to understand the technology, and no critical mass. Mr. Campbell added the anticipated pace of change is going to be much higher than in the past.

Mr. Finkbeiner responded to Ms. Girvan's question regarding budget development that there are no budgets established at this point and every trial will have its own situation and characteristics. Mr. Campbell mentioned the trial parameters would be visible and open for comment before the IESO made the commitment to the project.

Mr. Finkbeiner answered Mr. A White that the technologies may be connected to the IESO controlled grid or may be connected to distributors and they would have private sector proponents and public sector proponents.

Mr A. White commented that he was uncomfortable lumping in the participation of sophisticated dispatchable loads (that have services that they are prepared to invest in) versus fringe technologies that are not known. Mr. White added that he would like to see an upper bound in terms of total expenditure. Mr. Finkbeiner responded that the trials would be realistic trials where there presents a barrier and that technology exist in other jurisdictions.

In response to Mr. A White's question on how these technologies are different from traditional connection requests, Mr. Finkbeiner answered that traditional technologies have been in place for some time and are not new to the IESO.

Mr. Schembri commented that Loblaw's participated in the IESO TDRP program and that the IESO taking a leadership role and it was the right thing to do – which is to manage resources.

Ms. Serafini added that this is a prudent, thoughtful approach to integrate new technologies and the principles outlined are the right ones. She reinforced the need to see what the approvals process looked like before any new technology actually went to trial.

Mr. D. Whyte made a comment that a sponsor of a technology or a facility or an asset pays for the analysis of the system impact and asked why a supplier of a new technology would not finance the project to convince the IESO that the technology is worth buying. Mr. Finkbeiner responded that this is about the IESO learning to be comfortable and accepting of that particular technology.

Agenda Item No. 6: FERC order directing NYISO to develop solutions to loop flow by Mr. Peter Sergejewich

Following the presentation, Ms. Serafini asked if the IESO would be coming back to the Committee with a full cost/benefit for each of those three options. Mr. Sergejewich replied that a cost/benefit analysis is to be undertaken by the joint design team and would be looked at as an entire package of solutions.

In responding to a question from Mr. Humphries on the down side of not being in phase with other jurisdictions, Mr. Sergejewich said the IESO has not looked at all of the possible situations. He added that some of the down sides could be fewer opportunities for trading between jurisdictions, impacts to the number of imports into Ontario and disadvantaging some of the traders in our market.

Mr. A. White questioned market participants providing three-part offers; energy, reserve and regulation. Mr. Sergejewich answered that three-part offers were not necessarily a requirement and that the design team had not yet detailed how regulation services or operating reserve would be traded across the interties. Mr. White added that he saw domestic end-use customers, market participants offering regulation service as an intermediate step with this integration. Mr. White also supported Mr. Humphries comment about Ontario keeping up with the other jurisdictions.

In reply to Mr. A. White question on the resources required, Mr. Sergejewich replied the IESO has not yet determined this. Our level of participation needs to be looked at in terms of the rest of the IESO priorities. Mr Kozlik added that the other jurisdictions already have locational pricing and Ontario does not. Considering the priorities that the IESO has establish associated with supporting the Green Energy Act and supporting our own improvements such as EDAC, it is extremely unlikely that the IESO could keep up with the NYISO schedule.

Mr. G. Wight asked if the linked wheel concept was considered in the analyses. Mr. Sergejewich responded that this would be looked at as will all other transaction as the details of each option are developed.

Mr. Sergejewich confirmed to Mr. D. Whyte the solution addresses primarily a market risk and not a reliability risk.

Mr. Humphries asked the importance of this to the IESO and Mr. Campbell responded that the IESO does not have all the answers and this is why it was brought to the Committee. The IESO would like to get a sense of how important or what risks do the members see and what businesses could be affected by this kind of development in the jurisdictions around Ontario.

In concluding the discussion, Mr. G. Wight noted that the Marketer/Broker constituency is supporting this as an important issue. He added the volumes that interchange between the markets makes this important and want to be kept updated.

Agenda Item No. 7: Global Adjustment discussion by Mr. Brian Rivard

Following the presentation, Mr. Schembri inquired if any of the adjacent markets are transacting under a hybrid market or are they truly a HOEP market. Mr. Rivard responded that all the adjacent markets need additional mechanisms like a capacity market or bilateral contracting to recover some of the capacity costs.

Mr. Schembri inquired that it would appear Ontario electricity costs are more than other jurisdictions when the global adjustment is factored in. Mr. Rivard replied that the prices in other markets need to have the additional costs around capacity payments or charges for renewables, debt retirement issues added in. Ontario prices tend to fall in between different regions.

Mr. G. Wight emphasised the point that global adjustment has risen dramatically of late and is not a manageable item for a consumer and would like to see some constructive action to try and put more of these particular costs into HOEP.

Mr. Horrobin commented that the report does not deal with the growing cost of global adjustment and inquired what specific plans and timelines the IESO has in terms of providing a more efficient price. Mr. Rivard responded that the IESO is prioritizing all the various issues within the resource constraints and approaching the Committee within the coming year as to what the best way of tackling all these issues are.

Mr. A. White commented that the HOEP does, to some degree, reflect the efficient wholesale price. The global adjustment has been in place for some time and the current pricing should not be a surprise. As well, Ontario's economy should not be a surprise as it has always been cyclical. Mr. White does not support changing HOEP in an artificial way to restore customer's contracts or ease the job of retailers and marketers.

Mr. Mike McGee from Energy Profiles Limited commented that approximately 50 per cent of the market are large commercial/industrial customers who pay HOEP, who receive a retail bill, are embedded in LDCs, and do not receive the global adjustment. Instead they receive the Provincial Benefit which effectively is the global adjustment one month delayed creating price instability. Mr. Rivard replied he is aware of this and that it is hoped this timing issue will be resolved with a global adjustment allocation.

**Agenda Item No. 8: Market Power Guidelines for the Market Surveillance Panel
by Mr. Neil Campbell**

Following Mr. N. Campbell's presentation Mr. Humphries asked if the price guarantee concept of the OPA contracts are clouding or facilitating some of the issues discussed.

Mr. N. Campbell responded that there are a number of different kinds of contracts with materially different features. In a number of areas, contracts or regulated structures reduce opportunities or incentives to exercise market power. Mr. N. Campbell added that some contracts are of concern as they have counterproductive incentives. He cited the NUG contracts as examples of contracts that are inefficient.

John Witjes, Vice-Chair
STAKEHOLDER ADVISORY COMMITTEE