

VIA COURIER & ELECTRONIC MAIL

December 2, 2005

Mr. John Zych
Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street
27th Floor
Toronto, ON M4P 1E4

Dear Mr. Zych:

Re: IESO Comments on Proposed Issues to Be Addressed In Upcoming NGEIR Hearing – EB-2005-0306

The Independent Electricity System Operator (the “IESO”) is pleased to provide its submissions in response to the Ontario Energy Board’s (the “Board”) request for stakeholder comments on the issues that Board staff has proposed to be addressed in the upcoming NGEIR hearing.

As indicated in the NGEIR report dated November 21, 2005, the Board had earlier committed to a review of coordination mechanisms between gas and electricity system operations. The Board staff report also indicated that “an industry-led process... with Board staff as observer, is working on market coordination issues.”

Prudent coordination of gas and electricity markets is essential as more gas-fired generators come online in Ontario over the next 3-5 years, and the availability of these resources during periods of tight electricity supply impacts the reliability of the Ontario power system.

While not identified as one of the central issues to be reviewed at the hearing, the IESO believes the Board would benefit from being apprised of the latest developments with respect to the IESO’s proposed Day-Ahead Commitment Process, including the stakeholdering process.

In June 2005, the IESO commenced a series of working sessions with stakeholders to develop and evaluate different alternatives to satisfy the financial and operational needs of the Ontario electricity sector. Based on objectives derived from stakeholder input, four day-ahead market alternatives were developed for evaluation. However, after experiencing considerable challenges to maintain the reliability of the Ontario power system this past summer, the IESO identified immediate needs to enhance the reliability of the power system in advance of the summer of 2006. As a result, the remaining

working sessions slated for the evaluation of day-ahead market alternatives were refocused to developing an interim Day-Ahead Commitment Process to enhance the reliability of the power system. The longer term needs for day-ahead arrangements and associated stakeholdering would then resume in 2006.

A stakeholder working group consisting of members representing affected sectors was subsequently formed in October 2005 to review and provide input to the Day-Ahead Commitment Process design. The efforts of this working group culminated in a high-level draft of a Day-Ahead Commitment Process that was presented in a broader stakeholder workshop on November 16, 2005. This Day-Ahead Commitment Process is a reliability measure to provide greater assurance of sufficient resources committed in the day-ahead to meet forecast reliability needs in real-time.

Specifically, this Day-Ahead Commitment Process design improves the opportunities for the scheduling of imports, the reduction of import failures in real-time, and the likelihood that sufficient internal generation resources are online in real-time to satisfy reliability needs. Financial guarantees, referred to as reliability guarantees, are provided to committed resources should their commitment costs not be recovered from market revenues.

The Day-Ahead Commitment Process design will be presented to the IESO Board for endorsement in December 2005. Implementation of the Day-Ahead Commitment Process is scheduled for June 2006. Ultimately, when the discussions on day-ahead electricity market alternatives resume in 2006, the IESO will endeavour to ensure that the electricity and gas markets are coordinated and ensure reliable electricity supply from gas-fired generators.

Details of the Day-Ahead Commitment Process design and stakeholdering process are available at: http://www.ieso.ca/imoweb/consult/consult_isr.asp

In summary, the IESO appreciates the opportunity to provide comments on these issues and looks forward to actively participating in the upcoming NGEIR hearing.

Please contact me at (416) 506-2852 should you have any question about the IESO's submissions in this matter.

Respectfully submitted,

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