



December 1, 2016

Mr. Ryan King
Independent Electricity System Operator
Station A, Box 4474
Toronto, ON
M5W 4E5

Re: IESO Consultation on Prudential Framework - 2016

Dear Mr. King:

AMPCO is the voice of industrial power users in Ontario. Our mission is industrial electricity rates that are competitive, fair and efficient.

Ontario's electricity system is complex and almost always changing. AMPCO provides Ontario industries with effective advocacy on critical electricity policies, timely market analysis and expertise on regulatory matters that all affect their bottom line. We are the forum of choice for major power consumers who recognize that their business success depends on an affordable and reliable electricity system.

Attached are AMPCO's comments to the Independent Electricity System Operator (IESO) on its 2016 Prudential Framework Review. AMPCO appreciates the opportunity to provide such feedback.

Best Regards,

[Original Signed by]

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President

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Submissions of AMPCO

1. AMPCO concurs with the Independent Electricity System Operator (IESO) that there are three basic considerations that must be brought to bear on the topic of its Prudential Framework. Those are:
 - The program should be fair for all Market Participants
 - The program should represent a reasonable cost for Market Participants
 - The program should result in an appropriate level of risk
2. AMPCO submits that the second and third points above are intimately linked and inversely correlated. For clarity, the lower the residual risk, the higher the costs will be for Market Participants.
3. AMPCO submits that there may be some ability to incrementally increase program risks in order to reduce the program costs to Market Participants. This need not be a wholesale change from the existing position - rather, AMPCO believes that, based on past performance, the IESO could adopt a posture that allows for a slight increase in residual risk which would result in very real cost savings to Market Participants. All the existing safeguards would remain in place.
4. Letters of Credit (LCs) are cumbersome, expensive and tie up an entity's capital that could be used for other business. While AMPCO understands the need for these instruments, it also supports a prudent review of costs and risks to the system, to ensure that all costs incurred by Market Participants are essential.
5. AMPCO believes that there are some mechanisms that could be employed to achieve incremental cost savings:
 - Currently, calculations of the amount of prudential required to eliminate margin calls during the month of the year with the highest exposure, implied that Market Participants needed to have a higher trading limit

than is required for the rest of the year. AMPCO submits that some form of weighted average across all months in the year could be employed that would incrementally reduce the total prudential requirement without having to increase or decrease the prudential in place by Market Participant on a seasonal or monthly basis.

- Currently, collateral requirements exist separately for energy market participation as well as for demand response participation. AMPCO submits that entities that have satisfied the full prudential requirements associated with the energy market should not be required additionally to post collateral amounts for both the pre- and post-auction associated with demand response. If collateral associated with the energy market is adequate, then activation of demand response - which will reduce load - should directionally decrease the required collateral, not increase it.

6. AMPCO supports the IESO's position on the LDC pooling approach proposed by the MEARIE Group. AMPCO agrees that such an approach would unfairly produce higher burdens to non-LDC Market Participants.

All of which is respectfully submitted

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