

IESO BUSINESS UPDATE

To: Stakeholder Advisory Committee

From: Kim Marshall, VP, Corporate Services and CFO

Date: September 23, 2015

Subject: Real-Time Generation Cost Guarantee Program Review

Information Item

The IESO relies on the Real-Time Generation Cost Guarantee (“RT-GCG”) program, and other mechanisms such as the Day-Ahead Commitment Process, to incent participants to come to the market in real-time. The RT-GCG program provides generation facility resources that meet eligibility criteria, guaranteed recovery of certain incremental start-up costs to the extent that those costs are not recovered through market revenues. The IESO considers incremental costs to be those costs which are avoidable if the resource does not start.

Over time, the RT-GCG program has been the subject of several Market Surveillance Panel (“MSP”) reports relating to cost submissions and payments and recently the IESO has carried out a number of audits in this area. Based upon findings in these audits, feedback from program participants and past recommendations from the MSP, the IESO is proposing changes to elements of the RT-GCG program.

The current program relies upon after-the-fact cost submissions and subsequent auditing to verify costs. The audit process has been found to be burdensome for both the participants and the IESO and has identified that participants are unclear at times what types and allocation of costs are recoverable under the RT-GCG program.

The objective of this initiative is to develop a clearly defined and transparent cost recovery mechanism that reduces the scope and frequency of audits related to the RT-GCG program.

Through a stakeholder engagement initiative the IESO will publish a high-level design document which will present its proposed changes to the RT-GCG program, including the application of pre-approved cost values and cost methodologies, and validation of after-the-fact cost submissions where necessary. The high level design document will outline the

proposed changes to the process used in the program, as well as proposing the recoverable incremental costs under the new design.

The IESO intends these changes to the current RT-GCG program to be transitional, until a more permanent market design solution can be developed. While not part of this stakeholder engagement initiative, the IESO's longer-term plan will be to explore the implementation of 3-part offers (speed no load, start-up costs & energy offers) including 24-hour optimization. This was also the recommendation that came out of the recent Review of Generation Guarantee Programs stakeholder engagement. Such a change would better align the real-time guarantee program to that currently applied in the present Day-Ahead Production Cost Guarantee program.

A stakeholder engagement initiative will be launched shortly with plans for the first meeting in the latter part of October. Details as to time and place for that meeting will be communicated at a later date.

Background on the Real-Time Generation Cost Guarantee

The IESO-administered markets schedule resources to ensure energy and operating reserve requirements are met at any given time. If there is a disturbance on the electricity system or market demand increases, resources need to be ready to dispatch to meet system conditions. Not having enough resources online to meet changing conditions can have significant impacts on reliability and also energy prices.

Some resources can take several hours to reach the point at which they are available for dispatch, called the minimum loading point ("MLP"). During the period of initiating a start to the point the resource reaches its MLP, significant costs may be incurred. Without assurance that the resource will be dispatched in real-time, a generator faces uncertainty that the resource will be able to recover the incremental costs of starting and ramping to MLP. As a result, some resources are less likely to be available when the IESO may need them.

To address this concern the IESO introduced the Spare Generation On Line ("SGOL") program in 2003, now called Real-Time Generation Cost Guarantee ("RT-GCG") program. The IESO relies on this and other mechanisms such as the Day-Ahead Commitment Process to incent participants to come to the market in real-time.