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IESO SENIOR MANAGEMENT UPDATE

To: Stakeholder Advisory Committee
From: Ted Leonard, VP Markets & CFO
Date: August 7, 2014
Subject: **Market Development Planning**

Information Item

At the March 26 Stakeholder Advisory Committee (SAC) meeting, the IESO delivered a presentation on its market development planning efforts. During the presentation, IESO staff identified focus areas for market development planning and outlined a number of initiatives that are underway or that the IESO expects to work on in the next few years. The IESO committed to seeking stakeholder feedback on its proposed focus areas and initiatives and indicated an update would be provided at the August 20 SAC meeting.

Since that time, the IESO has engaged in ongoing outreach on both the plan and the initiatives of which it is composed. As part of this outreach, meetings were held with each of the SAC representative groups. At those meetings, SAC representatives indicated support for the development efforts and provided no specific feedback that the IESO's proposed focus areas should change. In general, response to the plan focused on discussing specific initiatives.

Work on many of the initiatives is progressing well. The IESO's demand response (DR) initiatives are moving ahead in a timely manner. The capacity market project is also advancing with a Stakeholder Engagement on design to be launched in September. Additionally, the IESO has recently completed phase one of its transmission rights review.

Progress on initiatives related to improving efficiency and transparency of the real-time price signals (one of the identified focus areas) has slowed as we await the results of the energy market pricing system review (SE-114). SE-114 is investigating the potential benefits of a number of alternatives to the current pricing system. The modeling required for this study has proven to be more complex than anticipated. The IESO is planning to present the results of SE-114 by October 2014.

Once SE-114 is completed, the IESO will formally engage with stakeholders on the real-time price signals focus area. This engagement will consider all related elements,

including more frequent intertie scheduling and enhanced unit commitment, in a holistic manner. The IESO will update the SAC on these discussions at the October SAC meeting.

The illustrative timeline of initiatives presented by the IESO at the March 2014 SAC meeting has been updated to reflect progress since March and is included as an attachment to this memorandum. Note that the previous timeline anticipated the IESO commencing a refresh of its Market Information System and linked the timing of this refresh to the stakeholdering of the current real-time market pricing model, enhanced commitment process and more frequent intertie scheduling. The initiative was anticipated to be completed by 2017. The updated timeline now identifies the formal engagement of these three elements under the heading of Real-time Market Design Review and decouples this initiative from system refresh timelines.

As the IESO works through this engagement with stakeholders, the interaction and impact on the timing of system refreshes will be taken into consideration. Additionally, given the scope of possible changes and the time required for implementing the necessary processes, procedures, and systems changes, the IESO anticipates a completion of this initiative no earlier than 2018. The lengthening of the schedule will result in the need to undertake interim changes to current market design that cannot wait until delivery of a larger, more fulsome, market redesign, such as changes to improve the efficiency and effectiveness of the current real-time generation cost guarantee program.

Going forward, the IESO will continue to review its plans with SAC and stakeholders on an ongoing basis and publish updated timelines periodically.