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APPRO
ASSOCIATION OF
POWER PRODUCERS
OF ONTARIO

July 16, 2007

Elizabeth Morris
Manager - Stakeholder Engagement
Independent Electricity System Operator
655 Bay Street, Suite 410
Toronto, ON M5G 2K4

Dear Ms. Morris,

APPRO is pleased to respond to the IESO's request for stakeholder input on Market Rule Amendment Proposal MR-00332-ROO, "Reducing Synchronized OR Requirement Due to Regional Reserve Sharing Program Changes," version 2.0 dated June 14, 2007 (the 10s Initiative).

First, at a high level, APPRO supports the use of Cost Benefit Analyses (CBA's) as a tool to assist in the determination of whether or not the benefits outweigh the costs associated with market rule amendments that are expected to have a material impact on market outcomes and market efficiency. A review process that includes CBAs will provide a considered approach for evaluating implications, and will allow a more formal debate when differences of opinion exist.

Of course as in any new methodology introduced to assess such changes the devil will always be in the details. As in any analysis, there is the potential for differences of opinion at all levels. The use of CBA will not eliminate this but it may be helpful in focusing discussion debate on the merits of a rule change. Consequently it is APPRO's view that this will be an ongoing, iterative process, given there will be a large number of circumstances where CBAs will be used. A large measure of flexibility will be required in developing and assessing over time the appropriate design for such CBAs. The current 10S initiative should be used as a means to provide further clarification and guidance on how CBAs are to be used in evaluating market evolution initiatives.

We have a number of comments, some of which are at a high level in terms of CBAs generally and some of which are more specifically applicable to the 10S initiative:

1. Quantification of consumer and producer surpluses must be undertaken carefully. The detailed information used to create demand/supply curves will be of particular significance in this regard. The analysis must be transparent and well-understood. Success criteria must be explicitly defined. Cost and benefit uncertainty may result in a number of situations where the outcome is less than obvious. The IESO must tread carefully in such situations.
2. Weighting should not be employed in CBAs as it introduces social and other considerations which lie outside the ambit of the IESO and its objects, insofar as efficiency is concerned. If these must be introduced, they must be explicitly acknowledged as government direction, and documented as such.
3. All costs and benefits must be included. Explicit exclusion of costs or benefits is very similar to the IESO making determinations on weighting.
4. Discounting should be handled with care. The assumptions used must be clearly set out and must be open to test by stakeholders. No single approach should be used, but rather the IESO should set out a clear, up-front rationale for discount periods and rates where it uses them.
5. Related to the above, complete information should be a priority for all CBAs. In order to for stakeholders to effectively evaluate a CBA, and for the CBA to be truly helpful in focusing consideration on the merits of a rule change it should include a detailed and rigorous examination of the matter at hand. Related analyses should be made public, and all supporting documentation and data sources should be identified and produced.
6. With respect to the specific CBA for the 10S initiative, we refer to OPG's response in which they note that "...it would be incorrect to base the expected efficiency gains on historical 10s shadow prices as these only reflect generator costs. It is likely that the difference in cost between 10s and 10N from dispatchable loads will be lower thus reducing the economic efficiency gains of this initiative. The savings of 490 k\$ in Scenario 2 included in the CBA is therefore an upper bound on the savings and the actual savings could be much lower. The IESO should revise the estimated cost savings to include the impact of loads providing 10s." We agree.
7. With regard to reliability impacts, our view is also similar to OPG's: the CBA lacks sufficient detail for stakeholders to accept the result that the impact on reliability is minimal. Our confidence is not enhanced when it is clear that Ontario is tackling this issue before other jurisdictions have done so.

This said, we recognize the importance of working cooperatively with the IESO to ensure that we have good CBA tools at our disposal. It is our intention to

continue to work with the IESO to ensure that these tools are effective to the task, and we look forward to further cooperation and engagement with the IESO on these matters.

Sincerely,

A handwritten signature in black ink, appearing to be 'David Butters', written over a large, light-colored oval shape.

David Butters
President

Cc: Sam Mantenuto; APPrO Board of Directors; APPrO MPWG members;
John Mackenzie, IESO