IMO Independent Electricity Market Operator

The Electricity EXCHANGE

INSIDE:

Inaugural Issue, Volume 1, 2003

The Electricity Exchange will be mailed to market participants on a quarterly basis and will also be available on the IMO web site at: **http://www.theimo.com/imoweb/news/newsroom.asp.**

We welcome your comments, feedback or suggestions. Please send us an email at: **electricity.exchange@theIMO.com**

The Electricity Exchange is published by:
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A note from **Derek Cowbourne** to our Market Participants:

Welcome to The Electricity Exchange

Derek Cowbourne

Vice President Market Services

Welcome to the inaugural issue of The Electricity Exchange. This quarterly publication by the Independent Electricity Market Operator (IMO) is designed for market participants in order to bring together noteworthy events and items of current interest. Future issues will include profiles on particular market participants, highlighting current developments and initiatives in their respective areas of the marketplace.

Since market opening on May 1, 2002, we've undertaken numerous enhancements that highlight our commitment to improving the market. The launch of the consultation process, under the direction of the Market Advisory Council (MAC), has proven an invaluable forum for involving participants and industry stakeholders in assessing the impact of adjustments on the market. Pricing issues have been addressed through the implementation of a number of initiatives including procedural changes that minimize intertie failures, placing market values on necessary IMO control actions, and a program that allows non-dispatchable loads to identify their price threshold.

Then of course there's August 14. The biggest emergency in our history demonstrated our competency in managing a reliable system that allowed Ontario to get back to normal both in the immediate restoration period and during the tight supply-demand conditions that followed. The emergency affirmed the importance of reliability standards, planning and industry co-ordination not only within our province, but also with our neighbouring jurisdictions.

As we move forward, we realize the criticality of addressing issues affecting price, reliability and the requirement for increased investment. The government's recent announcement on the new interim pricing system highlights the need for price signals that provide customers with the ability to both manage and reduce energy costs. Long-term supply options will need to be addressed in a way that provides participants with assurances and incentives for future investment. And new thinking will be required if the full potential of both demand management and price-responsive consumption are to be realized.

To meet these objectives, advancements in the IMO's Market Evolution Program, coupled with improved customer education and awareness, will be essential. As we continue to move ahead with these initiatives, we'll continue to work collaboratively with you, our customers, to ensure we operate the IMO-administered market in the most effective and transparent way possible.

Sincerely,

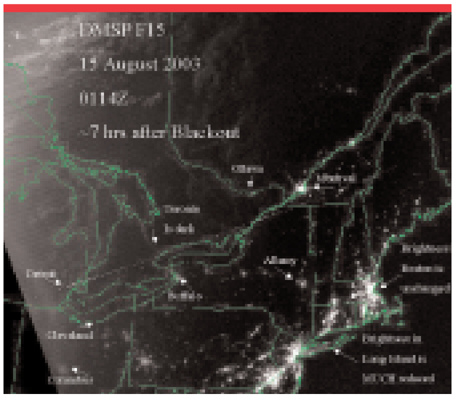
Derek Cowbourne

IMO Works to Address Pricing System Changes

The IMO will be working very closely with the Ontario Government and the Ontario Energy Board to address the changes resulting in the government's November 25 announcement on the new interim pricing system. "It is our intention to make every effort to ensure that a smooth transition to the new pricing system is delivered in the most efficient and effective way possible", said Dave Goulding, IMO President and Chief Executive Officer.

As of April 1, 2004, the pricing plan that froze electricity prices for small business and residential users at 4.3 cents/kWh will be replaced by an interim pricing system. Under the new system, Low Volume and Designated Consumers will pay 4.7 cents/kWh for the first 750 kWh of electricity used each month. Any additional electricity consumed above that amount will be charged at a rate of 5.5 cents/kWh.

Blackout Task Force Releases Interim Report



A view of the blackout from space.
Source: Air Force Weather Agency (AFWA).

With the November 19th release of the Interim Report of the U.S.-Canada Power System Outage Task Force, the attention now turns to developing recommendations and actions aimed at minimizing the likelihood and scope of future blackouts.

The Interim Report confirmed what the IMO and others have been saying for some time – that the blackout did not originate in Ontario nor did any Ontario actions contribute to the spread of the blackout.

The Task Force concluded that "the initiation of the August 14th blackout was caused by deficiencies in specific practices, equipment and human decisions that coincided that afternoon." There were three groups of causes identified in the report including: inadequate situational awareness at First Energy Corporation; First Energy failed to manage adequately tree growth in its transmission rights-of-way; and failure of the interconnected grid's reliability organizations to provide effective diagnostic support.

The IMO has reviewed the event with operating staff. While we haven't identified any significant changes that are required with respect to the way we manage Ontario's power system, we have increased the level of communication and information sharing with our counterparts in other jurisdictions.

The IMO plans and manages the power system to be prepared for any faults in the Ontario system. We have extensive monitoring capability, including backup facilities, and we have well-trained operators who prepare for abnormal events such as the one that occurred in August. Our operators also have the authority to take appropriate actions to address any problems that occur.

Annual blackout restoration exercises are conducted with industry participants including generators, transmitters, distributors and customers.

The interim report is available on the Natural Resources Canada website at: *http://www.nrcan.gc.ca/inter/powout/intro_e.html.*

Recent Consultation Developments

Drew Phillips speaks about market evolution issues at the MAC meeting

The IMO's consultation process was busy this fall with numerous meetings hosted by the Market Advisory Council (MAC), as well as the Market Operations, IT and Regulatory Affairs Standing Committees. The IMO's Economic Demand Response Pilot Program as well as developments on the IMO's Market Evolution Program (MEP) - particularly with regard to the Day Ahead Market and Long Term Resource Adequacy — highlighted the third MAC meeting of the year held in Toronto on October 8.

During its September meeting, the Market Operations Standing Committee discussed a proposal to introduce an additional 200 MW of control action operating reserve in the market; an initiative which was met with Board approval on October 3 and implemented within two weeks of that decision. Among other initiatives, the IT Standing Committee reviewed an improved release management process at their November 12th meeting, with particular emphasis on participant input and feedback on procedural enhancements. And a financial overview of the IMO's 2004-2006 Business Plan was addressed at the September 30 Regulatory Affairs Standing Committee meeting. The IMO filed its 2004 Fee Submission with the OEB on November 14.

More information on the IMO's consultation processes, including meeting dates and supporting materials, is available at: *http://www.theimo.com/imoweb/consult/mktAdvisoryCouncil_meetings.asp*

Business Protection Plan Rebates Paid For First Quarter

The numbers are in, and on average, the Business Protection Plan Rebate (BPPR) payments for the first quarter of this the second market year dropped the load-weighted price by 0.3 cents/kWh, from 4.4 cents/kWh to 4.1 cents/kWh. The first quarter covers the period May to July, with payments distributed to market participants in November.

While the official second quarter numbers will not be finalized for a while, and the corresponding quarterly rebates won't be paid to market participants until February, a preliminary estimate of the load-weighted price over the first 6 months of this market year is 4.9 cents/kWh. Based on that price, the estimate of the cumulative price relief that the BPPR will provide over that 6-month period is 0.55 cents/kWh, bringing the average price for the first half of this market year down to about 4.35 cents/kWh.

These prices are market averages, and they do not represent the weighted average price paid by a specific market participant. This is because no two market participants consume energy in exactly the same way and, consequently, all customers have their own weighted average price. Therefore, the net price paid by each market participant after the BPPR reduction will be slightly different.

While the February rebates will reduce the May to October average price by about 0.55 cents/kWh, market participants should remember that the amounts they will receive in February will take into account the money already rebated in the November invoices for the May to July period.

Generally the prices to date in this second market year are significantly lower than those experienced last year, which reflects, among other things, the very moderate weather patterns experienced this year as compared to the 2002-2003 market year.

For the first year of the market, the Market Power Mitigation Agreement was the rebate mechanism. Over $1.9 billion was rebated, which corresponded to an average price reduction of 1.2 cents/kWh, effectively lowering the system-weighted average price from 6.2 cents/kWh to a weighted average price of 5.0 cents/kWh.

More information on market rebates is available in *Quick Take, Issue 8* at: *http://www.theimo.com/imoweb/pubs/training/QT8_MPMR_2003jun12.pdf*

Generator Disclosure Information in Full Swing, and Poised to be Automated

The IMO is now posting detailed generator disclosure information on the IMO's public web site with reporting improvements already in the works. By mid-December, the three new reports are expected to be produced in near real time, with the information being made available within an hour.

Currently, these reports provide data regarding generator energy output, generator capability, as well as generator planned outages - aggregated by fuel type – all being based on information provided by market participants. These reports are produced each business day at 4:00 p.m. for the previous day's activities, and remain on the web for a one-month rolling period.

The Market Surveillance Panel is observing any effects the increased information disclosure may be having on the market outcomes and is likely to comment on this in its upcoming report, expected in December.

Reports are available at: *http://www.theimo.com/imoweb/marketdata/GenDisReports.asp.*

IMO Proposes No Fee Increase for 2004

On November 14, the IMO filed its Fees Submission and proposed 2004 budget with the OEB. The Fees Submission proposes that the IMO continue to provide its services to market participants at the current usage fee of $ 0.959/MWh. Further, the IMO's 2004 -2006 Business Plan shows that the IMO plans to continue to operate under that same fee for each of the next 3 years. This would represent 5 consecutive years of operation at the same fee.

The Business Plan takes into account the impact of many significant events that have faced the industry in the past year, including:

- the North American blackout on August 14, which demonstrated the need for increased awareness of the issues surrounding the reliability of North America's electricity system;
- the Market Evolution Program, which continues to represent critical work for ensuring a successful competitive electricity market in Ontario; and
- the introduction of legislation and corresponding regulation regarding Low Volume Consumers and Designated Consumers.

Major financial highlights and planning assumptions include:

- cumulative surplus at the end of 2003 to be carried forward to reduce usage fees in 2004, 2005 and 2006;
- capital spending for Day Ahead Market (part of Market Evolution Program) budgeted for $35M in the planning period; and
- additional resources resulting from issues surrounding the August 14 blackout.

More information on the Fee Submission and Business Plan is available at: *http://www.theimo.com/imoweb/corp/regulatory.asp*

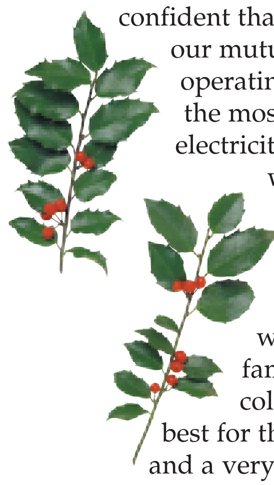
Northern Lights System Restoration Exercise Achieves Key Objectives

The system restoration exercise conducted on November 26 – which simulated the response to a power blackout in North-eastern and North-western Ontario – successfully tested numerous key elements of the Ontario Power System Restoration Plan as well as the IMO's Emergency Preparedness Plan. According to Paul Murphy, the IMO's Chief Operating Officer, "we achieved our Exercise 2003 objectives, and demonstrated significant progress in addressing findings identified in the past Exercises as well as the August 14 Blackout".

Market participants will provide detailed feedback on the exercise that the IMO will use in preparation for an evaluation report not only to reinforce success in the exercise, but to also identify opportunities for future improvement.

Best Wishes for the Holiday Season

The holidays are always a time for us to reflect on the events over the past year and to think about the challenges and opportunities that lie ahead. And as we celebrate the numerous successes we've collectively enjoyed in operating and enhancing the wholesale electricity market over the past year, we must now focus our energies on what is needed for the future. But by continuing to work in partnership with our customers, we feel confident that we can achieve our mutual goal of operating and evolving the most robust electricity system in the world.



As the holidays approach, we want to take this occasion to wish you, your families, friends and colleagues all the best for the holiday season and a very healthy, happy and successful 2004.

Calendar of Events: 2004

More information on these and other events is available at: *http://www.theimo.com/imoweb/events/calendar.asp*

January 8	Locational Marginal Pricing Workshop – **Toronto**
January 14	Market Operations Standing Committee Meeting – **Toronto**
January 14	Outage Planning Sub-committee Meeting – **Toronto**
January 14	Forecasts and Assessments Sub-committee Meeting – **Toronto**
February 18	Market Advisory Council Meeting – **Toronto**
February 25	Market Operations Standing Committee Meeting – **Toronto**
March 3	Release of Baseline 11.0
March 11	Revenue Metering Sub-committee Meeting – **Toronto**
April 7	Forecasts and Assessments Sub-committee Meeting – **Toronto**
April 14	Market Operations Standing Committee Meeting – **Toronto**