2003 Corporate Performance

Annual Results

Independent
Electricity
Market Operator

Summary of Corporate Performance

Objective: Effective Use of Constrained Funds

Performance Measure	Performance Expectation	Year End Result
OM&A spending within the budget amount approved by the IMO Board	Within the approved amount: $98.5 million	Net OM&A was $82.3 million, $16.2 million below budget. Financial performance expectations were aggressively set for the year to reflect the importance to the Corporation of careful financial management and moreover to recognize the rate freeze restriction imposed upon the IMO by Bill 210. Spending, budgets and resources were scrutinized as a high priority during 2003, in order to ensure the achievement of performance targets, while at the same time advancing programs and meeting or exceeding associated corporate performance expectations. The success of these efforts substantially exceeded expectations, to the extent that additional funding, expected to be separately identified for market evolution programs, was deemed unnecessary. Efforts to evolve and improve the market were sustained and prudently advanced within the approved budget amounts. Notably, 2003 actual OM&A was less than that in 2002, notwithstanding the much higher pension and market evolution costs incurred.
Capital spending associated with current operational mandate is performed within budget, timelines are met, and required results are achieved	Within the approved amount of $ 36.0 million, and according to schedule.	Net capital spending was $ 13.0 million, $23.0 million below budget. Capital spending was significantly below the approved budget. While a major reason for this was the unexpectedly high demands of higher priority OM&A-related programs, prioritization of corporate-wide capital efforts and frequent review of the capital program ensured that only the most important and necessary capital projects proceeded. While some concerns arose regarding longer term infrastructure capability under such a tightly managed situation, IMO management addressed these concerns by regularly and continually scrutinizing its initiatives, its infrastructure, and its other physical assets and reconciling these with its current and expected future needs. Of note, IMO's largest capital project in 2003, the DACS Replacement Project, was advanced and successfully completed ahead of schedule, in order to save several million dollars in relicensing charges that would otherwise have had to have been incurred if the old DACS system was not retired when it was.

Summary of Corporate Performance

Objective: Marketplace Evolution Effectively Managed

Performance Measure	Performance Expectation	Year End Result
Appropriate evolution of the market is achieved and managed effectively	Recommendations are made to the Board of Directors on each of the Market Evolution Program elements by the end of Q3 2003 Approved capital expenditures for MEP items are within budget and required results are delivered according to approved schedule	IMO made steady progress in improving and evolving the Ontario market. 1. Recommendations on the key elements of Resource Adequacy were made to the Board in December. Funding approval was provided for development of a business case. 2. In keeping with presentations and discussions at the Board, stakeholdering efforts for DAM/LMP were extended to achieve as much Market Participant support as possible for the recommendations. Recommendations to the IMO Board of Directors will be presented at the March 2004 Board meeting. 3. MIO is expected to be delivered on schedule and within budget. 4. The regulations for Environmental Tracking have not been passed by the government, hence project work has been put on hold. 5. The Market Evolution Program is operated within the approved capital budget. Capital funding for the evolution of the market (except Environmental Tracking) has been allocated within the business plan going forward. IMO additionally concentrated on three critical "pricing issues" that were distorting the economic signals of the early marketplace design: Pre-dispatch vs real time pricing disconnects, counterintuitive shortage pricing, and uplift anomalies. These impediments to an efficient market were addressed by developing a suite of initiatives and programs that were implemented in 2003, to the satisfaction of participants. The resultant indications suggest that visible improvements to both market operation and reliability have been accomplished. IMO Senior Management provided leadership for market evolution in the face of policy uncertainty by: • enhancing communications with market participants • building and maintaining momentum amongst the stakeholder community; • managing to keep participants satisfied with pace of development • providing value-added and strategic input to the evolution of the market and electricity public policy through its participation in the Electricity Conservation and Supply task Force in late 2003.

Summary of Corporate Performance

Objective: Customer / Stakeholder Satisfaction

Performance Measure	Performance Expectation	Year End Result
Customers and stakeholders are satisfied on an ongoing basis	IMO is assessed to be an organization which continually satisfies its customers. This assessment to be grounded by surveys, customer comments and other anecdotal evidence.	IMO has operated the market successfully during 2003, and has assisted market participants to achieve their objectives through consistency of approach, by using well understood mechanisms for operation and needed change, and by providing timely and helpful assistance from IMO staff.

Consultations with and feedback from market participants were frequent and continuous throughout 2003. During the year, the IMO's consultation strategy was successfully implemented. Issues remain with the decision making that stems from the consultative nature of the forums, however such issues exist in any dynamic consultation forum, and can be expected to continue to influence IMO actions going forward. The key to successful consultation, however, has been the availability of open forums and the accessibility of IMO personnel to market participants. The IMO achieved success in a number of participant-impacting initiatives:

Client interface	IMO Initiatives	2003 Results	
Consultation	Formal Stakeholder Committee Consultations	• Market Advisory Council – 3 meetings held during 2003. Council comprises 257 members, including associations & observers. • Market Operations Standing Committee – 9 meetings held during 2003, not including sub- committees, • Information Technology Standing Committee – 4 meetings held during 2003 • Regulatory Affairs Standing Committee – 5 meetings held during 2003	
	Specific Stakeholdered Consultations	• Consultations completed in 2003 ⇒ Changes to IMO Confidentiality Catalogue ⇒ Blueprint for Demand Response ⇒ Assignment of MPM Rebate ⇒ Meter Seal Expiry Compliance ⇒ CMS Credits ⇒ Application of a measurement error correction	• Consultations on-going at the end of December ⇒ Economic Demand Response Pilot ⇒ Market Evolution Program Initiatives ♦ Day Ahead Market ♦ Locational Marginal Pricing ♦ Multi-interval Optimization ♦ Resource Adequacy ♦ Wholesale/Retail Integration
Key Information	Baselines met	• Baselines 9, 9.1, 10 & 10.1 released on time • Plans for future baselines published	
	Web-based information	• Participant Satisfaction Survey ranked IMO website highest of all methods of communications with IMO (84%) • Web casts delivered on CMSC, 18 Month Forecast.	
	Communications	• Strategy Approved by the Board in April -Designed to expand IMO relationships beyond the traditional stakeholders • Proactive media strategy implemented in May • Employee Communications efforts increased in 2003 • Major media presence following the August 2003 blackout • Outreach program involving discussions with community and business leaders initiated in November 2003.	
Training	On going training	• 9 Quick Takes training modules rolled out on IMO web • 33 days of Face-to-Face training sessions delivered at public and market participant venues, in addition to 3 sessions at IMO sites, and 5 days of IMO-wide staff training.	
	Overview and understanding training	• Large-volume consumers presentation/training package developed and implemented. • Dispatch Workstation system simulation implemented	
IMO Assistance	Effective help centre	• Handled an average of 289 inquiries per week in 2003 • Participant Satisfaction Survey completed	
	Account managers/ personal assistance	• Conducted 30 customer visits in 2003 • 185 MW of additional dispatchable load developed for the market	
Waiver Process	Waiver processes delivery	• Reduced outstanding exemption requests from 97 in Dec., 2002 ,to 38 in Dec., 2003.	

The table below identifies, from the annual customer survey, overall customer satisfaction level in their relationships with the IMO, compared to 2002. The survey was conducted by an independent relationship consultant to assess customer satisfaction with IMO's efforts. Generally, the survey's results support the premise that IMO continues to have good working relationships with the market participant community, and some improvements are apparent since last year. IMO is perceived as an industry leader, with integrity, who participants trust to handle all prescribed operational responsibilities.

Relationship with the IMO	2002	2003
Excellent (9 or 10 out of 10)	51%	*63%*
Very Good and Excellent (7 to 10 out of 10)	94%	*99%*

Summary of Corporate Performance

Objective: Operational Effectiveness

<table>
<tr><th>Performance Measure</th><th>Performance Expectation</th><th>Year End Result</th></tr>
<tr>
<td>1. Control of tie line flows under normal & disturbance conditions meets or exceeds industry median

2. Electrical reliability is maintained within the province

3. Market Systems and Processes operate effectively</td>
<td>1.DCS, CPS1 & CPS2 meet/exceed median values of Eastern Interconnection Control Areas >10,000 MW

2. IMO actions to avert/address significant reliability events are assessed as appropriate.

3. To be assessed based on a suite of market operation performance measures .</td>
<td>
Throughout 2003, challenges emerged that exposed the system to reduced reliability. These challenges to the Ontario Market included:

A continuing tight generation supply situation in Ontario,
Ontario energy price protection legislation which reduced the incentive for conservation, drove retail services companies from the marketplace, and reduced the investment climate for new electricity supply in Ontario,
Environmental threats such as those which precipitated from the unforeseeable and potentially calamitous loss of Ontario’s largest 500 kV switchyard, and
A widespread blackout on August 14th originating outside the province but having a significant and lasting impact in Ontario.

In this environment meeting operational effectiveness targets demanded a high level of commitment and expertise, which was demonstrated by the IMO. Performance expectations were met and exceeded as noted below:

1. Results for 12 months ending December 31, 2003 for CPS 1 and CPS 2 are better than the latest available corresponding NERC-wide median levels,whereas the result for DCS equals the NERC standard, as shown in the table below:
<table>
<tr><th>NERC Standards</th><th>IMO</th><th>Median</th></tr>
<tr><td>Control Performance Standard 1
(The NERC compliance standard is greater than or equal to 100%)</td><td>170.4</td><td>148.2</td></tr>
<tr><td>Control Performance Standard 2
(The NERC compliance standard is greater than or equal to 90%)</td><td>98.33</td><td>93.22</td></tr>
<tr><td>Disturbance Control Standard
(The NERC compliance standard is 100%. It is also the maximum achievable – DCS cannot exceed 100%)</td><td>100%</td><td>100%</td></tr>
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2. The Northeast Power Coordinating Council’s (NPCC) 2003 Peer Assessment of the IMO concluded:

The IMO has the expertise and commitment to quickly address extensive challenges to maintaining system reliability and the flexibility to develop or change rule sets prudently to positively impact the on-going attainment of reliability in Ontario.
IMO actions and activities and it’s overall reliability performance is demonstrative of a high expectation, high level of expertise and commitment organization that can be assessed at the upper end of – “Meets Expectations” for the reliability measure.

In addition, the assessment added, regarding the August 14 Blackout: “…the Peer Review Group feels compelled to comment on the outstanding job that the IMO did in its restoration of such a great loss of load in so complex of a system.”

The acceptable performance level was thus exceeded, while additionally dealing with the critical demands of the August blackout.

3. IMO has a suite of 22 operational performance measures. Two measures are without board approved targets because they were under development and assessment during 2003 and will have board approved targets in 2004. Of the 20 measures with board-approved performance targets in 2003, 17 bettered their target. Of the remaining 3, one (Duration of Market Suspensions) did not meet its target directly as a result of the August Blackout. The other two, (Timeliness of SAA and SSR Publication & Demand Forecast Error Bias) did not meet their targets as a result of process and other factors that are being addressed in 2004.
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Market Operations Performance Measures

Category/Name	Measure	Criteria	Performance Standard	2003 Status
Provide Sufficient Information For Effective and Successful Bids and Offers				
Implement accurate Intertie Schedule	Accuracy	Average Daily	≥98%	98.86%
Publish Regularly Scheduled SAA's and SSR's on time	Timeliness	As per schedule	≥97%	96.09%
Minimize Day Ahead Forecast Errors	Accuracy	Average Daily	≤3%	1.78%
MinimizeDay-Ahead Demand Forecast Error Bias	Bias	Average Annual	≤5%	5.34%
Effective Outage Request Processing	Accuracy	Processed vs. Valid	≥97%	99.76%
Effective processing of Transmission Rights Auction	Timeliness	As scheduled within market rules	<3 failures to complete a full auction per year	0 failures
Publish price every 5 minutes	Completeness	Average Daily	≥99%	99.44%
Continuous Operation Of the Market	Frequency of Market Suspension	Number of Market Suspensions per Year	<3 suspensions per year	1 suspensions
	Duration of Market Suspensions	Total Duration (hours) of Market Suspensions per year	<20 hours total duration per year	200.7 hours

Market Operations Performance Measures (continued)

Category/Name	Measure	Criteria	Performance Standard	2003 Status
Market Services				
Validated and estimated interval metered data that is suitable for settlement calculations available to market participants 1 day after the trade day.	Timeliness	Average Daily	≥99% (Annual Average)	99.6%
Meter Trouble Reports issued to the MSPs on the 1st business day following the trade day.	Timeliness	Average Daily	≥85% (Annual Average)	93.5%
MTR closed on the 1st business day after the receipt of a satisfactory resolution from the MSP.	Timeliness	Average Daily	≥85% (Annual Average)	98.5%
Preliminary and final settlement statements issued on the date specified in the IMO Settlement Schedule & Payments Calendar	Timeliness	As per schedule	≥99% (annual average)	100%
Settlement Statements do not contain an error caused by the IMO.	Accuracy	As required	≥99% (annual average)	99.3%
Help Centre Performance	Average Time to Close Ticket	Cumulative annual average	≤15 days	12 days

Market Operations Performance Measures (continued)

Category/Name	Measure	Criteria	Performance Standard	2003 Status
Invoice Market Participants				
Issue Invoices as per *IMO Settlement Statement Payments Calendar (SSPC)*	Timeliness	As required	≥97%	100%
Invoice Accuracy	Accuracy	Average Monthly	≥97%	100%
Administrative Pricing				
Administrative Pricing (AP) Frequency	Frequency	Number of occurrences of AP per year	Standard currently under assessment	*
Administrative Pricing (AP) Duration	Duration	Total time AP applied per year	Standard currently under assessment	*

Category/Name	Measure	Criteria	Performance Standard	2003 Status
Market Facing Systems Availability				
MIS (Schedules, Prices & Dispatch, Contract Manager, Message Exchange, ICCP)	Availability	Average Daily as per respective schedule	≥97%	99.2%
MOS – MPI (MOS/MIM & Web) (Bids/Offers, Report retrieval, IOMS)	Availability	Average Daily	≥99%	99.6%
RMS (CRFA,Settlements/Meter Data/Invoices/MV-WEB)	Availability	Average Daily	≥94%	99.4%

* These performance standards were under development during 2003. Actual 2003 results were 61 for Frequency and 221 for Duration. The standards approved by the IMO Board of Directors for 2004 are: ≤50 occurrences for Frequency and ≤250 intervals for Duration.

IMO Independent Electricity Market Operator