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ANNUAL REPORT

COMPLIANCE ENFORCEMENT 2006

A report to the President and CEO of IESO
documenting compliance enforcement activities during 2006

March 2007

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Table of Contents

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Executive Summary

This report of the enforcement of compliance with the Ontario Electricity Market Rules is for the 12-month period ending December 31, 2006. It presents statistics on activity levels and commentary on special projects and enforcement initiatives. It was prepared by the Market Assessment & Compliance Division (MACD), the IESO business unit delegated to enforce compliance across the wholesale market in a neutral and arm's length manner.

In 2006, of the 637 cases dealt with, less than one-fifth resulted in a finding of a breach while a slightly higher number, 22 percent, were formal investigations closed with no action taken. More than 60 percent of the 637 files were closed by means of Alternative Case Resolution. In other words these 385 cases were closed without resorting to a formal investigation: after an informal request for information either the party changed its behaviour to come into compliance with the rules or MACD concluded that the matter did not constitute a breach of the rules. This Alternative Case Resolution approach to addressing potential breaches was developed over time as MACD refined its procedures in discussion with market participants. It is typically less resource intensive for market participants, also with a quicker resolution than resorting to formal investigative procedures.

Of the 112 matters proceeding to a finding of breach, 18 were dealt with by a letter sanction alone and 94 also led to the imposition of a financial penalty. Total financial penalties in 2006 were $638,043, more than 25 percent higher than the previous year and the highest annual figure since market opening. Almost 84 percent of the total financial penalties were imposed for failures of intertie transactions deemed within the control of the market participant and this related to only the first six months of the year. As of June 1, 2006 transaction failures of this nature are dealt with by way of a settlement charge that compensates load. Therefore, in 2007 and subsequent years it is to be expected that the amount of financial penalties will be dramatically lower. This is of no particular consequence since the goal of enforcement is to promote compliance with the market rules not to generate revenue.

No compliance enforcement matters in 2006 were referred by market participants to the Dispute Resolution Panel or appealed to the Ontario Energy Board.

The report comments on nine special projects carried out during the year either because they were precedents, streamlined the enforcement process or targeted higher priority matters more effectively. In the latter category are: enforcement of failure to activate Operating Reserve and the publication of compliance priorities. Streamlining included: the audit review of procedures and the implementation of the recommendations, the Compliance Aggregation Program, dispatchable facilities compliance, and the

implementation of the intertie transaction failure settlement charge. Finally, the action taken with respect to revenue metering, particularly metering installation upgrades, and the Electric Reliability Organization developments are in some sense precedent setting and therefore included in the report.

The report concludes with brief comments on the outlook for compliance enforcement. In addition to flagging revenue metering issues and interest in the continued evolution of ERO procedures, two target performance measures for compliance enforcement are advanced for the first time. The first target is that at least 80 percent of informal compliance cases – Alternative Case Resolutions – are to be resolved in 37 days or less. The second target is that at least 75 percent of formal compliance cases are to be resolved in 6 months or less.

In all 2006 was an active year for compliance enforcement, both in terms of the volume of activity and the introduction of effective new procedures to build on in the future.

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1. Introduction

This report summarizes the enforcement of compliance with the market rules in the Ontario electricity market in calendar year 2006. Its purpose is to provide a record, identify opportunities for improvement and provide a basis to guide the strategic direction of enforcement going forward.

The responsibility to investigate and enforce compliance in individual cases rests with the Market Assessment and Compliance Division (MACD) to be carried out on a neutral and arm's length basis. But the IESO and the broader community of stakeholders need to be satisfied that the function is being performed in a fair and effective way, consistent with the IESO's mission and strategic priorities. This report is therefore also an effort to provide transparency and accountability for compliance enforcement.

It is organized as follows. Section 2 reports on activity levels including statistics and descriptions of key categories. Section 3 outlines work behind the scenes to make the compliance process more effective. Finally, section 4 provides an outlook of 2007 activities.

2. Activity Levels

2.1 Overview

MACD tracked all cases where it made contact with a party involved in a compliance matter, whether the party allegedly in breach or the party reporting the non-compliant event. Table 1 captures these contacts as 'open cases'. It shows that 526 matters required a client contact and 637 were concluded in 2006. The total case volume fell in Q3 and Q4 due to the change in intertie failures from a compliance matter to one of market settlement when the intertie failure charge rule was implemented June 1, 2006. In Q4 the remaining 2003/2004 meter upgrade cases (44) were concluded. This resulted in a significant number of closed cases in 2004 and few outstanding cases at the end of 2006 (31).

Note that before a case is opened MACD assesses each referral or complaint using screening criteria. This helps to manage the volume of work and eliminates matters not worth pursuing. For example, in 2006 approximately 1900 referrals were received from a single IESO business unit alone, but only the highest priority matters were pursued.

TABLE 1: CLIENT CONTACTS IN 2006

	Cases Opened (informal and formal)	Cases Closed (informal and formal)	Outstanding Cases
Q1	201	263	n/a
Q2	168	176	n/a
Q3	94	90	n/a
Q4	63	108	n/a
Total	526	637	31

Table 2 shows the activity levels for one measure, formal investigations, were down considerably in 2006 compared to 2005. There were 144 formal investigations, as compared to 324 in the previous year. The reason for the decrease in 2006 is largely because fewer formal notices were issued for intertie failures and no formal notices were issued for metering upgrades. By contrast, in 2005 there were 98 notices issued for outstanding meter upgrades alone.

TABLE 2: COMPLIANCE INVESTIGATIONS, BREACHES AND REMEDIES, 2006

	2002	2003	2004	2005	2006
Formal Investigations - Initiated	79	303	179	324	144
Letter Sanction Only	18	37	65	82	17
Fin. Penalties: Number	13	32	64	79	94
Fin. Penalties: Amount	$130,000	$149,000	$237,300	$464,334	$638,043

While the number of investigations declined, the number and total amount of financial penalties rose again in 2006 and were the highest recorded since market opening. The cause of this increase was intertie transaction failure breaches. They accounted for 86 percent of the number of financial penalties and 89 percent of the dollar value of the penalties. As discussed below, these numbers will not be repeated in future years because of the de facto replacement of the economic failure provision with a settlement charge.

a) Compliance Activity by Category

Tables 3 and 4 illustrate that a substantial number of cases concluded in 2006, 60 percent (385/637), were handled by 'alternative case resolution'. What this means is that in the initial screening process MACD channeled matters that lack severity[1] into an informal process initiated by a voluntary request for information to the market participant or IESO.

There are three possible outcomes under alternative case resolution. First, the information request forces an assessment by the participant that results in it taking voluntary corrective action. Second, MACD learns that it has misunderstood the matter and the file is closed. Third, the matter may be more serious than initially assessed, in which case it is transferred to the formal investigative channel and a Notice of Alleged Breach is issued.

Under this alternative case resolution approach compliance with the rules is achieved sooner and at less cost to the participant and MACD because the process is less formal. MACD has received very positive feedback regarding the value of this informal approach that started comprehensively in 2006. It has proven to be an effective vehicle for education and awareness but at the same time the information is logged so a more complete compliance history is retained – outside of the formal investigative procedures in the market rules.

[1] Essentially no market or reliability impact and a low rate of recurrence.

TABLE 3: MARKET PARTICIPANT CONCLUDED CASES; BY AREA OF THE MARKET RULES, 2006

Categories	Total Concluded	ACR*	Formal Cases	Letter Sanctions only	Financial Penalties: Number	Financial Penalties: Amount
Finance	51	45	6	0		0
Metering & Settlements	46	2	44	11	12	$71,000
Miscellaneous	3	1	2	1	0	0
Operations Communications	58	55	3	0	0	0
Dispatch Data and Deviations	114	99	15	3	1	$1,000
Failed Intertie Transactions	317	140	177	0	81	$566,043
Operating Reserve	26	24	2	1	0	0
Other	1	1	0	0	0	0
Outages	11	11	0	0	0	0
Reliability Standards	1	0	1	0	0	0
Total	628	378	250	17	94	$638,043

*Alternative Case Resolution

<u>Failed Intertie Transactions</u>

As in past years, Table 3 illustrates the concentration of investigations on failed intertie transactions and the resulting impact on their dominant share of financial penalties levied in 2006. This category includes two distinct market rule provisions: 1) market participant errors in NERC tags, and 2) the failure to successfully schedule energy in the neighbouring market – 'economic failure' (Chapter 7, section 7.5.8A). Of the 81 breaches in this category in 2006, 46 were tag errors and 35 were economic failures. The typical financial penalty for NERC tag failures was $2,000. By contrast, breaches of section 7.5.8A require the use of formula-based penalties. These penalties were much higher, ($13,509 on average), and account for $472,798 of the total $566,043 levied for failed intertie transactions. MACD continued to issue notices for intertie failures up until the implementation of the settlement charge on June 1, 2006.

The future enforcement focus for intertie failures will involve egregious behaviour or disruptive behaviour by a market participant, typically where revenue is gained as a result of the transaction failures.

Dispatch Data and Dispatch Deviation

The second most active area of investigation was in the area of dispatch data and dispatch deviation. The vast majority of these were due to the participant's failure to update dispatch data (Chapter 7, section 3.3.8). Particular focus was given to dispatch data revisions that failed to be made prior to the start of the restricted window, as these failures have market and/or reliability impacts. In one of these cases where a sanction letter was issued, an inadvertent error by a generator resulted in a $55 market price impact. This occurrence was reported in the June 2006 Market Surveillance Panel monitoring report. The only financial penalty in this category was levied against a dispatchable load which failed to update dispatch data for 15 hours.

Metering Installation Upgrades

In 2005, MACD launched an enforcement program for meter installation upgrades due by the end of 2004. Metered market participants are required to perform an upgrade to the metering standards of Chapter 6 of the rules as their meter seals expire. This action resulted in 98 Notices of Alleged Breach issued to 83 metered market participants for 426 metering installations. Because of the number of cases and complexity of assessment MACD staff spent a considerable effort in 2005 and 2006 in completing this work. Almost half of the outstanding cases were concluded in 2006. The elapsed time for cases resolution was quite significant due to the volume, assessment complexity, and MACD staff turnover in 2005.

Table 3 shows over 44 separate case files in this area with a total of 33 sanction letters or financial penalties issued. The 33 sanctions involved 17 market participants and 113 metering installations. Of these seventeen metered market participants, nine market participants were issued a financial penalty and issued orders to complete outstanding installations in 2007. The remaining had already upgraded their installations within the time allowed. One MMP initially indicated an intention to dispute the finding but this has so far not been pursued. Improvements planned for elapsed time of case review are outlined in section 3.

Communication

The communications category had 58 concluded cases. This category most generally captures real-time communication involving failures to notify of equipment synchronization and/or de-synchronization (Chapter 5, section 3.5.1.2). The two formal notices were issued when contact was not made with the IESO during a contingency event and an unauthorized de-synchronization resulted in a compensatory action being taken by the IESO (exports were made recallable).

Operating Reserve Activation

The operating reserve category had 26 concluded cases. Operating reserve activation failures involved various circumstances specific to fuel type. With the hydraulic units, it mainly involved water management issues, outage slip coordination, and equipment failure. With dispatchable loads, issues involved tool problems or operator errors. Fossil non-compliance normally resulted from ramping issues and unit outage slip coordination.

There was only one breach found in this category due to the methods used to formally escalate failures. MACD escalates an event to formal proceeding based on two criteria: rate of reoccurrence and coincident impact. The majority of cases were not escalated due to there being no additional impact on the reliability (e.g. NPCC generation load matching violations) or there being no previous actions taken with the participant regarding ORA failures. However, a new approach has been developed as described in section 3 below.

Outages

The 11 concluded investigations related to outages involved two provisions: 1) failure to notify of equipment being removed from service, (Chapter 5, section 6.1.6 and 6.4B) and 2) failure to notify of change in status of equipment (Market Manual 7.3, Appendix B). Specifically, failures to: submit outage slips for work on auxiliary systems, coordinate outage slip submissions with dispatch data updates, and failure to provide timely notice of outage extensions.

Reliability Standards

IESO Reliability Compliance Program (IRCP) referrals to MACD resulted in the closure of one formal investigation in January 2006, regarding the Milton three phase fault which was a matter of public record soon after it occurred in 2005.

Four cases involving reliability standard breaches consisted of three failures to test and re-verify relay protections systems and a failure to test critical facilities required for system restoration commenced in 2006. In early 2007, the three relay protection maintenance cases have concluded with two resulting in letter sanctions and one with a financial penalty. Table 3 does not reflect these case closures as they were concluded in 2007.

Finance

Activities related to finance primarily involve notices of late payment. In addition, six notices surrounding various payment or prudential default were issued. All events of default were remedied and no disconnection/suspension/termination notices were issued.

b) IESO Matters

There was one sanction letter issued to the IESO in 2006, which related to a business unit sending the wrong market participant information regarding a settlement for voltage and reactive support. While the impact of this disclosure was assessed as minimal, an identical breach by the IESO occurred in the past and had not been effectively remedied. In addition, a number of confidential information disclosures involving the same participant had occurred in the past. As is the practice for all IESO breaches, it was reported to the CEO of the IESO and published on the IESO website in the monthly market summary.

Also surrounding confidential information disclosure, a number of referrals led MACD to advise the IESO that a common cause for confidential information disclosures involved the use of the auto fill function in the corporate email system. The IESO has since disabled this feature.

A formal case was launched and concluded regarding practices with New York in establishing intertie limits and its impact on intertie failures. This case was closed with no sanctions but is not included in the statistics below as it was concluded in early 2007. The one formal notice was conditionally closed contingent upon the settlement error being remedied. All other cases closed were handled as ACRs and had either minimal impact and/or were immediately remedied.

TABLE 4: IESO CONCLUDED CASES BY AREA OF THE MARKET RULES, 2006

Categories	Concluded	ACR*	Formal Cases	Letter Sanctions Only	Financial Penalties: Number	Financial Penalties: Amount
Information Confidentiality	2	1	1	1	0	0
Metering & Settlements	4	3	1	0	0	0
Operating Reserve	1	1	0	0	0	0
Operations: Other	2	2	0	0	0	0
Total	9	7	2	1	0	0

*Alternative Case Resolution

c) Disputes or Appeals

A market participant disputed a MACD finding of an intertie failure which was sanctioned $1,000 for a tagging error. It felt that an alternative interpretation of MACD's intertie transaction guidelines would have held it harmless for the failure in question. After good faith negotiations the participant withdrew its dispute. This was the only dispute related to compliance enforcement filed in 2006.

3. Areas of Emphasis

The statistics presented in the previous section gives only a partial description of compliance enforcement initiatives in 2006. Large blocks of time were devoted to:

- Revenue metering
- DACP data submission compliance
- Development and implementation of real time transaction failure settlement charge
- Audit review and recommendation implementation
- Operating Reserve activation tool development
- Publication of priority areas
- Electric Reliability Organization developments
- Compliance Aggregation Program
- Dispatchable facilities compliance with dispatch Instructions

a) 2003/2004 Revenue Metering Program

In March 2005, a market participant was found in breach for failure to conduct the required spot checks at several hundred metering installations in 2003. Three orders were imposed, the most significant being to complete at least one spot check by June 25, 2005 at each installation that had not been spot checked since 2002. The other two orders related to reporting requirements on progress in satisfying the order. Failure to comply with orders would constitute a new breach of the rules. The first substantive order was complied with; however, the market participant failed to report progress to MACD. It was issued a letter sanction for this reporting failure.

The monitoring of compliance with meter verification obligations continued to be a focus of activity in 2006. A preliminary assessment showed a significant improvement in performance compared to 2003.

MACD's compliance campaign on legacy meter upgrades that would eliminate the need for regular meter verification – was even more resource intensive because this was the first enforcement effort directed at meter upgrades. Well before 2006, MACD and the IESO metering group launched an education and awareness campaign. The enforcement guidelines communicated to the metered market participants provided some flexibility on deadlines for the required work and also opportunities for participants to justify non-compliance.

The consequence of this was that the individual case assessments took time and overall this project was one of the MACD's most resource intensive. This was also reflected in the elapsed time for the cases. Over half of the cases were concluded in 2005 with an average elapsed time of nine months. The remaining cases that concluded had an average elapsed time of 21 months.

As reported earlier, in the end, 17 market participants were found in breach. More importantly, as of March 2007, approximately 91 percent of metering installations due for upgrade in 2003/2004 are compliant.

To improve on the elapsed time for the next round of meter upgrades (meter seals expiring in 2005/2006), MACD has developed a web page specifically for this program which provides guidance to metered market participant under investigation regarding their submission requirements. Also, with the combination of experience gained and temporary staff hired that has experience with the metering upgrade process, metering staff will not need to be as involved in technical assessments. Lastly, MACD has outlined and published the enforcement program assessment principles for upgrades due in 2005 and subsequent years. Due to the labour intensive effort required to conduct 426 assessments, the future approach is more streamlined than previous years but will hopefully effectively promote compliance with the Chapter 6 metering standards.

b) Day Ahead Commitment Data Submission compliance

As a result of the IESO's decision to not automatically block violations in dispatch data submissions, MACD built a tool to identify and track these violations. In the first 5 months of 2006, MACD was involved in the development of DACP processes for its own use and assisted in developing queries to support DACP commissioning efforts. During June and July a large number of potential violations were identified and reviewed. After discussions with the market participants involved, a vast majority of violations were screened out and not pursued. The identification process was fully transferred to the responsible IESO business unit during the summer and MACD began receiving referrals according to normal processes. In 2006, 11 informal investigations were conducted and concluded for DACP data submission breaches.

c) Development and Implementation of Real-time Transaction Failure Charge

In 2005, an Intertie Failure Working Group was established to address the effectiveness of the compliance regime for intertie failures. In November 2005, the majority of the members of the Working Group supported a plan to move intertie failures from the compliance regime to a charge incorporated in the normal settlement process. In consultation with the Intertie Traders Subcommittee, the real-time failure charge was development and integrated with the day-ahead transaction failure charge, which were both implemented on June 1, 2006. The stakeholder effort was focused on the charge calculation in that it should reasonably reflect the harm caused by the failure. Due to the charge being a function of the pre-dispatch to real time price spread, of particular concern was the price spread caused by calculation methodology differences between the pre-dispatch and real time price sequences. This stakeholder effort and the implementation of the charge caused a considerable resource drain on MACD.

During stakeholder engagement, market participants expressed concern that the charge might reduce both the volume of trade and market efficiency. Their concerns were addressed by the commitment to study the impact of the new charges over the first six months of use. In December 2006, MACD reported back to the stakeholders and recommended continued use of the charge. This recommendation was supported by studies conducted by its Market Assessment Unit indicating that trading volume, trade flows and price divergence, between New York and Ontario particularly, were not affected by the implementation of the charge. A preliminary assessment of the effectiveness of the charge was also conducted. Upon comparing the failure rates before and after the charge implementation, the Market Surveillance Panel inferred from the sudden drop in the export failure rate that it did have a positive effect on exporter's behaviour. There also appeared to be a drop in the import failure rate but not as pronounced. This analysis was published by the MSP in its December 2006 report.

For the first five months of the failure charge implementation, approximately $1.0 million dollars had been collected under the real time failure charge types as compared to $500,000 for financial penalties collected in the first five months of 2006.

d) Audit Review and Recommendation Implementation

From April to September of 2006 an independent audit was conducted on MACD compliance business processes. The audit led to a commitment by MACD to resolve all identified risks, with one exception, by the end of 2006. The exception required the development of a new application which would track each change and identify each individual making changes to case files. It was decided not to proceed with this change because of the low probability of records being corrupted and the high cost and disruption of modifying the database to give it this functionality. The audit findings fell into five broad categories:

- Tool modifications to secure MACD developed applications
- Tighter monitoring of access privileges to MACD developed applications and segregated server
- Enhancements to internal procedures and external manuals
- Broader and more thorough on-going tracking of cases
- Continued development of performance monitoring/reporting

Recommendations related to the first four were implemented during the last 6 months of 2006 and delivered on time. The time was well spent and ensured a more robust and efficient operation of the unit.

The last commitment to be implemented was to conduct a review of performance in 2006 with a view to establishing performance measures for 2007 implementation. The performance measure recommendations are described in the final section of this report and will be implemented for 2007 case assessments.

e) Operating Reserve Activation Tool

In 2006, internal discussions took place about the effectiveness of market mechanisms and compliance methods for dealing with ORA failures. The first step was to establish whether there was a lack of performance in this area. MACD conducted foundational work to assess rates of compliance with a view to a corporately integrated solution. MACD developed a tool to identify and track operating reserve failure for each resource type. The data revealed that, due to inconsistency of referrals, past compliance investigations were not focused on the worst offenders. MACD depends on the line business units to identify and refer events of non-compliance. The control room logs usually identify ORA failures which cause corrective actions to be taken or where collective failures are of significant magnitude. Referrals are subject to control room workload and are not effective in identifying participants with the worst compliance rates.

A combined approach of test activations and enforcement was developed. Compliance rate raw data is provided to the responsible IESO business unit from which it develops a test schedule for the control room. As of the end of January 2007, operating reserve test activations have been scheduled for participants with the worst compliance rates. Under the market rule provision in Chapter 5 section 4.10 (Consequences of a Failed Test), the IESO has the authority to exclude participation in the OR market for failed tests. In 2007, MACD will also focus its efforts on market participants with the worst compliance rates. Actions are presently underway with some participants.

f) Priority Areas

In August 2006, MACD published its list of priorities which outlines the areas of focus for MACD in the short and long term. These areas of focus were vetted through the IESO business units to align with corporate priorities and mandates and provided to the stakeholders for comment through the Market Operations Subcommittee prior to roll out. The plan is posted on the Compliance main page as "Priority Compliance Areas" and will continue to evolve as situations change. This and other stakeholder interactions are meant to keep the lines of communication open with market participants and build trust through transparency of MACD activities.

g) ERO development

With the ERO developments in the U.S., MACD examined the need for market rule amendments to ensure that MACD had the authority to levy appropriate penalties for breaches of reliability standards; some gaps were identified. Market rule changes to resolve these gaps became effective on March 7, 2007. In late 2006, Hydro One applied for a review of these rule amendments to the OEB. As a result, MACD committed to develop a penalty matrix for financial penalties extending to the $1 million limit by June 1, 2007. Stakeholder engagement on this issue will start in March 2007.

MACD case review of reliability standard breaches was coordinated and executed in parallel with case assessments at NPCC (Compliance Monitoring and Assessment Committee) and IRCP staff. Through this experience we gained insights into future procedural development needs which are commented on in section 4. The three protection maintenance cases resolved earlier this year will set the standard for compliance with reliability standards for the future. All three cases were similar in that labour disruptions resulted in cancellation of outages that were required to complete the work. Also, there was a 7 to 8 month opportunity to reschedule the work after the conclusion of the strike. In all three cases the parties did not demonstrate they made reasonable efforts to reschedule the outages during this period. Breaches were found for all three cases and one party was levied a financial penalty. Two participants have taken the initial steps to dispute the finding through the IESO dispute resolution process or to the Enforcement Panel of NPCC.

h) Compliance Aggregation Program

As part of the dispatch issues identified by the IESO for 2006, MACD was involved in the implementation of the Compliance Aggregation Program for a number of river systems. Considering the Dispatch Scheduling Optimizer is unable to calculate and issue dispatch instructions for aggregated resources a work around was necessary. The need to give generation units flexibility to dispatch any resource on a river system rather than be restricted to unit specific dispatch would have reduced the occurrences of non-compliant events seen, for example in the summer of 2005. As a result of the number of failures to follow dispatch seen in 2005, case reviews were conducted with participants that provided MACD with an opportunity to assess the quality of their water management programs to ensure that these entities had been diligent in planning their water resources. The market participants were found to have well constructed water management programs in place.

MACD is strongly in support of this initiative and incorporated the program into the IESO Interpretation Bulletin for compliance to dispatch instructions.

i) Dispatchable Facilities - Compliance Deadband

In addition, to incorporating changes for the Compliance Aggregation Program two other changes were made to the Interpretation Bulletin for dispatchable generators. The bulletin's application was expanded to include dispatchable loads which eliminated the need for facility specific dead bands to be developed. Another item identified as a dispatch issue concerned the number of dispatch instructions issued to generators. Market participants expressed concern over having to react to each dispatch instruction issued as required by the Bulletin as this caused undue wear and tear to the generators. This issue was approached in two ways through Bulletin revisions. The requirement for the generator to react to dispatches issued within the deadband was eliminated and the compliance dead band was increased to 15 MW around the dispatch instruction. During the pilot of both the Compliance Aggregation Program and changes to the deadband requirements, generators on aggregated river systems were required to react to 20 percent fewer dispatch instructions.

4. Outlook

The outlook for MACD compliance activity in 2007 provides a perspective on both old and new issues.

We anticipate continued development work with NPCC through this year of ERO implementation. The joint Memorandum of Understanding signals this in the section of investigations.[2] Also, the procedures under development with NPCC and NERC do not yet completely mirror those in force under the Ontario market rules.

MACD will be initiating another metering upgrade compliance action for reseal years 2005 and 2006, as well as initiating actions against any metered market participant that failed to meet 2003/2004 compliance orders. These programs involve approximately 80 metered market participants. The enforcement of compliance with the requirements of meter upgrades will continue to be time consuming because of the large number of meter installations involved and the complexity of assessments. Though with the 2005/2006 program at least for second offenders, compliance assessment will be more streamlined, nonetheless, a careful balance needs to be struck between prodding compliance and acknowledging legitimate impediments to achieving the required changes.

In 2006 MACD was in a position to pilot service levels that will set elapsed time standards for case handling from first notice of a matter to its conclusion. Separate pilot service levels were established for informal and formal cases. They differ in the number of notices issued and submissions made by the party allegedly in breach, and whether meetings are held with the party. Upon review of the MACD unit's performance relative to the pilot service levels, we have developed performance measures for elapsed case time for informal and formal cases that are achievable yet challenging. Table 5 is an overview of 2006 performance.

[2] http://www.ieso.ca/imoweb/pubs/ircp/ero/ero-20061128-MOU_IESO_NERC_NPCC_CBRE_NPCC-INC.pdf

TABLE 5: 2006 ELAPSED TIME for CASES RESOLUTION

Case Type	Average Days/Months	Median Days/Months	Percentile 70	Percentile 80	Number of Days/Months of Pilot
Informal	32 days	16 days	29 days	37 days	28 days
Formal	3.3 months	2.2 months	5.2 months	6.3 months	2.5 months

As mentioned earlier, a large portion of the cases concluded in 2006 were alternative case resolutions (60 percent) of which 80 percent were resolved within 37 days. Formal cases are much more resource intensive and time consuming because they require at least two submissions by the party allegedly in breach, a meeting, and escalation to at least a supervisory level. In establishing performance measures the above statistics excluded approximately 10 percent of the formal cases concluded in 2006 due to the 21 months it took to conclude these 44 meter upgrade cases.

Target performance measures for 2007:

i) For informal compliance cases: the elapsed time for resolution for 80 percent of these will be 37 days or less. This is no change from the 2006 statistics.

ii) For formal compliance cases: the elapsed time for resolution for 75 percent of these will be 6 months or less. This will mean a considerable challenge to MACD because 50 percent of the metering upgrade cases will be required to be resolved in one third of the time of last year's performance.

Cases that failed to be resolved in time to meet the pilot targets did so due to factors outside MACD's control. These factors included:

- The need for multiple information submissions from the participant
- The need for escalation or resolution by an internal group
- Staff availability and workload issues with all involved parties
- The grouping of similar cases under investigation

Performance is unlikely to improve for cases impacted by these factors.

Due to the linked nature of energy dispatch compliance and ORA compliance, in 2007 cases regarding ORA failures will likely bring up unsolved dispatch issues particularly with fossil-fired units. MACD is coordinating with the relevant IESO business unit in resolving these compliance cases from two perspectives: 1) to ensure we will not undermine the efforts of the dispatch issues working group and, 2) in recognition that changes to energy and ORA compliance rates will inevitably have an impact on the market availability of ramp rate and Operating Reserve.