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EMAIL AND COURIER

November 2, 2011
File No.: 101926.1056

Ms. Kirsten Walli
Ontario Energy Board
Yonge-Eglinton Centre
P.O. Box 2319, Suite 2700
2300 Yonge Street
Toronto ON M4P 1E4

Dear Ms. Walli:

**Re: Independent and Electricity System Operator - Fiscal 2011 Fees
Submission for Review: EB - 2010- 0046**

We are counsel to the Independent Electricity System Operator (the "IESO").

Pursuant to section 19 of the *Electricity Act*, please find enclosed in PDF-searchable electronic form the IESO's Submission for Review for its 2011 expenditure, revenue requirements and fees. The requisite number of paper copies will follow by courier.

There are several procedural matters that we wish to raise with the Board at this time. First, as the Board has directed in previous years, the IESO proposes that notice be given as follows:

- The IESO shall post the Notice of Application, including the pre-filed evidence on the IESO's website at the "Regulatory Affairs" page;
- An announcement, in English and French, will also be posted on the "Participant News" page and will be automatically emailed to all market participants and interested parties who are registered to receive IESO news and other communiqués (this will include all connection

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proponents with respect to whom the IESO maintains a public registry); and

- The IESO shall deliver an electronic copy of the Notice of Application, including the pre-filed evidence, to all registered intervenors and observers in the IESO's 2009 and 2010 Fees Submissions for Review.

Second, as in the case of previous years' proceedings, the IESO requests that a draft issues list be posted for comment along with the Notice of Application. Enclosed is a proposed draft issues list.

Please contact the undersigned or Biju Gopi of the IESO if you have any questions or wish to discuss these points further.

Yours truly,



Glenn Zacher

/sc
Encl.

IESO DRAFT ISSUES LIST
FISCAL YEAR 2011 FEES SUBMISSION

1. Operating Costs

- a. Are the IESO's projected OM&A Costs appropriate and reasonable?
- b. Are the IESO's projected staff costs and strategy for setting compensation levels appropriate and reasonable?

2. Capital Spending

- a. Are the IESO's proposed capital expenditures on the enhanced day-ahead commitment (EDAC) project reasonable?
- b. Is the EDAC project on budget and on schedule?
- c. Are the IESO's proposed capital expenditures, other than those on EDAC, appropriate and reasonable?

3. Methodology for Calculating Usage Fee

- a. Is the methodology for calculating the IESO's 2011 usage fee appropriate and reasonable?
- b. Is the IESO's plan to retain the 2010 projected surplus to assist in rate stabilization and to address the higher than normal risk that energy volumes will be lower than assumed over the planning period appropriate and reasonable?

4. Green Energy and Green Economy Act (GEGEA) Initiatives

- a. Are the IESO's plans to address GEGEA initiatives reasonable and cost effective?
- b. Are the IESO's increases in resources necessary to implement the GEGEA initiatives reasonable and cost effective?

5. Smart Metering Entity

- a. Is the IESO's process for separating costs associated with its role as the Smart Metering Entity from costs associated with operating the provincial electricity grid and managing the wholesale electricity market reasonable?
- b. Is the IESO's plan for recovery of its smart metering costs through a separate regulatory mechanism appropriate and reasonable?

6. Reliability

- a. Are the IESO's proposed measures to address reliability appropriate and cost effective?

ONTARIO ENERGY BOARD

IN THE MATTER OF sections 18 and 19 of the *Electricity Act, 1998*;

AND IN THE MATTER OF a Submission by the Independent Electricity System Operator to the Ontario Energy Board for the review of its proposed expenditure and revenue requirements and the fees which it proposes to charge for the year 2011 in connection with the IESO-controlled grid and IESO-administered markets.

**IESO 2011 FEES SUBMISSION
FOR REVIEW**

November 2, 2009

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ONTARIO ENERGY BOARD

IN THE MATTER OF sections 18 and 19 of the *Electricity Act, 1998*;

AND IN THE MATTER OF a Submission by the Independent Electricity System Operator to the Ontario Energy Board for the review of its proposed expenditure and revenue requirements and the fees which it proposes to charge for the year 2011 in connection with the IESO-controlled grid and IESO-administered markets.

SUBMISSION FOR REVIEW

1. The Board of Directors of the Independent Electricity System Operator (respectively the "IESO Board" and the "IESO") approved the IESO's Business Plan for the fiscal years 2011 - 2013 (the "Business Plan").
2. The IESO submitted its Business Plan to the Minister of Energy and Infrastructure for approval pursuant to section 19.1 of the *Electricity Act, 1998* (the "Act") and the Minister approved the Business Plan.
3. The IESO hereby submits its proposed expenditure and revenue requirements and proposed fees for 2011 to the Board for review and approval pursuant to section 19(1) of the Act.
4. Under section 19(2) of the Act, the IESO is seeking the following approvals from the Board:
 - (a) Approval of its proposed 2011 revenue requirement of \$126 million;
 - (b) Approval of its proposed 2011 capital expenditure envelope of \$21.5 million for capital plans;
 - (c) Approval for the continuation of the \$1,000.00 application fee;

- (d) Approval of a usage fee of \$0.822/MWh to be paid commencing January 1, 2011. The IESO usage fee is paid by all market participants on energy withdrawn from the IESO controlled grid (including scheduled exports). If necessary, pending approval, the IESO proposes to continue to charge the 2010 usage fee (\$0.822/MWh) to market participants from January 1, 2011 until the end of the month in which Board approval is received for the 2011 usage fee, and seeks authorization to charge (or rebate to) market participants the difference between the 2010 and 2011 usage fee, if any, based on their proportionate quantity of energy withdrawn (including scheduled exports) for that period, directing such charges (or rebates) to market participants in the next billing cycle following the month in which that approval is received; and
- (e) Approval to retain the accumulated surplus from the 2010 fiscal year (currently forecast at \$13.1 million) to assist in rate stabilization and to address the higher than normal risk that energy volumes will be lower than assumed over the planning period.

5. Smart Metering Entity ("SME") costs, including both IESO internal and contracted expenses, will be recovered through a separate regulatory mechanism from the IESO usage fee that is charged to wholesale market participants. The IESO is therefore not seeking to recover any costs relating to performing its role as the SME in this proceeding.

6. Supporting this Submission is the IESO's pre-filed evidence which includes:

- i) The Business Plan;
- ii) Supplemental financial information on projected 2010 financial results and the financial outlook for 2011-2013;

- iii) Methodology for calculating the 2011 usage fee and proposal for treatment of accumulated surpluses;
- iv) Status report on the Enhanced Day-Ahead Commitment project;
- v) Status of Undertakings

7. The Business Plan sets out the strategic business objectives and priorities for the IESO over the planning period, including:

- Deliver and maintain electricity service in a manner that balances reliability and costs;
- Reliably and efficiently integrate unprecedented increases of renewable resources into Ontario's power system;
- Develop, re-design and adapt tools and processes to efficiently facilitate the province's green energy policy and respond to the fundamental changes this policy introduces to the power system;
- Continue to operate efficiently and look for and implement new efficiencies through organizational and business process re-design;
- Develop a "market road map" that identifies market changes that would benefit Ontario's market structure and support the province's green energy objectives; and
- Continue to promote and maintain effective relationships with customers and stakeholders.

8. The Business Plan further identifies the opportunities and challenges that lie ahead and the initiatives the IESO has planned to meet these opportunities and challenges and facilitate its strategic objectives.

9. The IESO may amend its pre-filed evidence from time to time, prior to and during the course of the Board's proceeding. In particular, should the IESO identify a material change to its 2011 fees Submission the IESO will update its pre-filed evidence and may also amend its Submission to update the requested usage fee. Furthermore, the IESO may seek to have additional meetings with Board Staff and intervenors in order to identify and address any further issues arising from this Submission, with a view to an early settlement and disposition of this proceeding.

10. The IESO proposes the following title for this proceeding: *Independent Electricity System Operator Fiscal Year 2011 Fees Submission for Review*.

11. The persons affected by this Submission are all market participants as defined in Chapter 2, section 2.1.1 of the *Market Rules for the Ontario Electricity Market*, who participate in the electricity markets administered by the IESO. The IESO communicates regularly with its participants by way of the IESO's website and e-mail. Consistent with the means of notification requested and approved by the Board for the IESO's 2008 to 2010 fee Submissions, the IESO proposes that notice of this application be given by the following means:

- i) Posting this application, including the pre-filed evidence on the IESO's website on the "Regulatory Affairs" pages;
- ii) Posting an announcement, in English and French, on the "Participant News" page, which will be e-mailed to all market participants and interested parties who are registered to receive IESO news and other communiqués; and
- iii) Delivering an electronic copy of this Submission, including the pre-filed evidence to all registered observers and intervenors in the IESO's 2009 and 2010 Fees Submission for Review.

12. The IESO requests that a copy of all documents filed with the Board by each party to this proceeding be served on the IESO and the IESO's counsel in this proceeding, as follows:

- (a) The IESO: Mr. Brian Rivard
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Independent Electricity System Operator
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- (b) The IESO: Mr. Biju Gopi
Senior Regulatory Analyst, Regulatory Affairs
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(c) The IESO's counsel: Mr. Glenn Zacher
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DATED at Toronto, Ontario, this 2nd day of November, 2010.

INDEPENDENT ELECTRICITY SYSTEM
OPERATOR



By its counsel in this proceeding
Glenn Zacher

EXHIBIT LIST

Exhibit	Tab	Schedule	Description
A – ADMINISTRATION			
A	1	1	Fees Submission for Review
A	2	1	Exhibit List
B – PRE-FILED EVIDENCE			
B	1	1	2011-2013 IESO Business Plan
B	1	2	Letters from IESO to Minister of Energy and Infrastructure dated October 1 and 29, 2010; letters from Minister of Energy and Infrastructure to IESO dated October 22 and November 1, 2010
B	2	1	Supplemental Financial Information – Projected 2010 Financial Results and Financial Outlook 2011 to 2013
B	3	1	Methodology for Calculating 2011 Usage Fee and Proposal for Treatment of Accumulated Surplus
B	4	1	Status of Enhanced Day-Ahead Commitment Project
B	5	1	Status of Undertakings

2011 – 2013 BUSINESS PLAN



Power to Ontario. On Demand.

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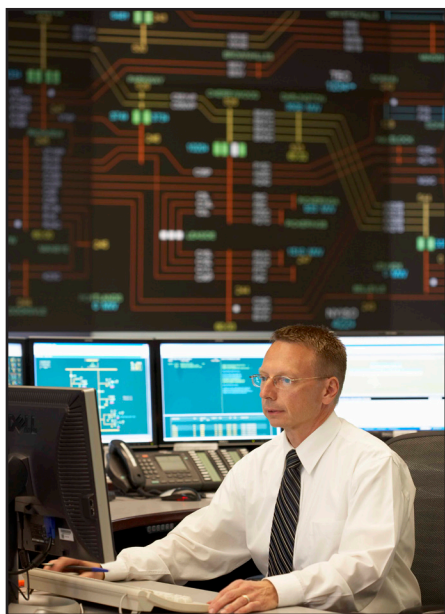
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SUMMARY

Maintaining reliability of Ontario's bulk power system continues to be the cornerstone of the Independent Electricity System Operator's (IESO) mandate. Coordinating all the industry players to achieve that responsibility will be particularly challenging as implementation of the provincial government's green energy policies phases out coal and ushers in substantial increases in new wind, solar and hydroelectric capacity. The 2011-2013 Business Plan addresses this challenge by addressing the implications to the IESO of the changing supply mix in Ontario and outlines the actions and resources needed to ensure that these new renewable facilities can be efficiently integrated into the operation of Ontario's power system without compromising reliability.

A broad-based transformation of Ontario's power system is well underway, revolutionizing the way electricity is generated, delivered, managed and even consumed in Ontario. Many of the changes at play are more profound and occurring faster than expected. The increasing investment in new renewable generation is accompanied by the expansion and enhancement of the transmission and distribution systems, the retirement of Ontario's coal generating fleet, and the development of a 'smart grid' for Ontario. As a result, the implementation of the government's *Green Energy and Green Economy Act, 2009* (GEGEA), and the associated commitments to change the characteristics of the Ontario power system, are now materializing with unprecedented urgency, with equivalent pressures on the IESO to coordinate, facilitate and advance many of these changes.

The IESO will continue its leadership in implementing the government's green energy policy, and in facilitating innovations in the way the province's bulk power system is operated, with an ongoing focus on reliability and efficiency. The changes underway are the most significant in the 100-plus-year history of the province's electricity industry. Given its interdependencies, the power system will be continuously reconfigured over the next decade as coal plants are shut down, new gas plants are commissioned, nuclear units are refurbished and returned to service, unprecedented amounts of renewable generation are integrated into the system, the transmission system is renewed, improved and expanded and the distribution system is equipped for two-way power flows. At the heart of this reconfiguration, the supply mix is being transformed to incorporate substantial increases in new wind, solar and hydroelectric capacity, which will require the IESO to overhaul many of its existing system management tools and techniques.



Over the next 10 years, electricity consumers will take a more active, engaged role in the market. Tools and systems are emerging to communicate with consumers, helping them to make informed decisions about electricity consumption. Developing and coordinating new demand-side resources with clear price signals, dynamic demand response programs, automated energy management tools and consumer education will be a growing priority for the industry.

Building on its operational expertise, the IESO has a key role in actively supporting and facilitating all these changes, enabling the newfound benefits while maintaining reliable and efficient operations.

The IESO has been planning for the elimination of coal-fired generation for several years now, and the plan to phase out coal by 2014 is progressing well. Four coal-fired units totalling 2,000 megawatts (MW) of capacity have been taken out of service in 2010, and Ontario is utilizing more gas-fired and renewable generation. The province is already relying on contributions from nearly 1,100 MW of grid-connected wind capacity. Between new wind, solar and biomass projects, variable generation is expected to climb to almost 7,000 MW by the end of the business planning cycle.

In the coming months and years, the growing contributions from contracted variable supply sources will see the IESO developing new approaches to balance supply and demand. Having the ability to dispatch all resources will allow us to reliably manage the variability and make the best use of all available resources. This means we need to find new and better ways to coordinate the dispatch of more resources such as Non-Utility Generators (NUGs), nuclear units and even consumers. It also means the renewable supply itself will, at times, need to be flexible. In order to do this in an efficient manner, the renewable resources will have to be fully incorporated into the market just like other resources.

The IESO continues to believe that a competitive real-time electricity market is the most fair and efficient way to organize the electricity sector, with real-time prices having the potential to provide the cohesive force needed to efficiently coordinate all efforts. As it has since its formation over a decade ago, the organization will be responding to stakeholder requests for the IESO to take a leadership role in evolving the real-time market over the long term.

Over the business planning cycle, however, the objective is to achieve efficient electricity price signals so as to drive economically efficient investment and operational decisions in the consumption of electricity. The Ontario electricity market will continue to play an important role in achieving operational efficiency in the province while advancing Ontario's electricity supply and consumption policy objectives.

The IESO has a proven track record when it comes to financial leadership. While the demands on the business have continued to grow, the rate charged to its customers has not increased since 2002. In fact, the proposed 2011 usage fee of \$0.822 per megawatt hour represents no increase from the 2010 rate, and is almost 14 per cent lower than the rate charged in 2003.

Throughout the 2011-2013 business planning period, the IESO will remain focused on maintaining reliability, preparing for future operations, efficiently managing our business and effectively contributing to the development and implementation of government policy. In doing so, the IESO will continue to capitalize on the restructured organization put in place last year, centred around the four pillars of Today, Tomorrow, Internal and External. The new structure was designed to help the IESO meet the demands associated with the implementation of the provincial clean energy policies.

STAKEHOLDER INPUT

Stakeholder consultation has always been an integral part of the IESO's planning process and this year's process provided the opportunity for more input than usual. Through the Stakeholder Advisory Committee, stakeholders identified a number of priorities on which the IESO was urged to focus its attention and activities for the next three years. These include:

- Improving price signals
- Evolving the electricity market to improve efficiency
- Integrating renewable energy into the electricity system and market
- Educating and engaging consumers
- Resolving global adjustment issues
- Addressing intertie issues
- Advocating on behalf of customers with the Ministry of Energy and other agencies to address issues and complexities outside of IESO control

These priorities will influence the company's key initiatives for the 2011-2013 business planning period.



MEETING THE CHALLENGES

The IESO's core strategic objective has always been to deliver and maintain electricity service in a manner that balances reliability and costs, while meeting all applicable standards. A number of challenges are emerging that the IESO will need to address if it is to continue to meet that objective.

Reliably integrating unprecedented amounts of renewable generation into Ontario's supply mix will pose unique demands on the IESO and its processes. The expected significant increases in renewable generation will add supply variability - both minute-by-minute and day-to-day - compounding the challenges associated with balancing supply and demand. As a result, the use of existing dispatchable generation will also vary widely from day to day, with less predictable patterns than in the past. Ontario is not the only jurisdiction adding significant amounts of variable generation to its mix. Increasing amounts of wind energy in neighbouring jurisdictions, particularly in the United States, are expected to lead to more variability in intertie flows.

The IESO's ability to support the integration of renewable generation through its connection assessment process is also being challenged with the high volume of Feed-in Tariff (FIT) applications. That increasing workload is now ramping up to a new plateau and the IESO is proposing resource additions to meet these new demands over the business planning period and beyond.

To manage potential surplus baseload generation (SBG) conditions the IESO will need to be able to utilize the dispatch provisions of FIT contracts for generators greater than 5 MW in addition to utilizing increased flexibility to economically direct the output of NUGs.

The IESO, like other Reliability Coordinators in the North American electricity sector, is managing its reliability and compliance responsibilities in an increasingly complex and constantly evolving regulatory environment. A large number of new and revised North American Electric Reliability Corporation (NERC) and Northeast Power Coordinating Council (NPCC) standards are being developed and applied, requiring the IESO to expand its existing focus on compliance and enforcement efforts.

From a market perspective, there are also a number of challenges facing the IESO and Ontario.

The vast majority of supply in Ontario is operating in the wholesale market with the assurance of long-term contracts as their backstop. While the original vision for the market included significant contracting, those contracts were expected to retain incentives to operate in an efficient manner, as have the contracts behind Ontario's gas-fired generation fleet. Many other generators are now operating under contracts that pay them simply to produce energy, effectively insulating them from the market signals. Originally, this disconnect from market forces was not of concern, provided the amount of this generation was small. However, the combined effect of a reduced demand for electricity and what we now know will be a significantly increased renewable energy fleet creates surplus situations with no obviously-willing dispatch partners.

The IESO strategy is two-fold. Over the near term, the IESO will maintain a focus on improving the efficiency of pricing signals – both in the wholesale market price and through influencing the design of consumer pricing. Over the longer term, the IESO needs to determine the future direction for the market.

KEY INITIATIVES

The IESO has developed a number of initiatives to address the expected challenges and respond to the stakeholder-identified priorities. These initiatives are described below.

RENEWABLES INTEGRATION PROJECT

A high priority for the IESO over the next three years will be meeting our obligations under the GEGEA including the integration of renewable technologies into reliable operation. From an initial expectation of 3,500 MW, the combination of FIT applications and the Korean Consortium project are likely to result in more than 11,000 MW of proposals for renewable generation, of which up to 7,000 MW are expected to be in service by 2012-2013, or within the timeframe of this Business Plan.

The IESO is already playing a critical role in finding ways to make this new supply mix work. To deliver on the promise of the GEGEA, we need to confirm the requirements for integrating large quantities of renewables into operations, and then develop and implement the associated business processes, tools and market rules – all within a very short period of time.



The IESO's Wind Tracker shows how wind power is helping to meet Ontario's electricity needs at www.ieso.ca/windtracker.

The objective of the Renewables Integration Project is to integrate renewables in a way that maintains the efficient and reliable scheduling and commitment of electricity supply on a daily basis. This means optimizing the use of existing and anticipated generation and providing mechanisms to efficiently dispatch variable resources. The project covers a broad range of areas including centralized wind forecasting, dispatch requirements, treatment of and relationships with embedded facilities, management of surplus baseload generation, settlement issues, etc.

ENERGY MODELLING

As Ontario's supply mix changes, our current focus on capacity will no longer be adequate to ensure reliability of supply in a world with high penetration of variable renewable resources, i.e., resources that have no assured fuel supply to maintain their output. Future-looking detailed probabilistic assessments of resource adequacy (energy, capacity and operability), transmission adequacy and congestion are increasingly becoming an essential requirement, consistent with the growing penetration of renewable generation and with emerging NERC recommendations.

The IESO plans to use forward energy simulations to better understand, assess and develop future operating strategies. This new capability will allow the IESO to analyze the impact of potential operating issues resulting from changes planned within and beyond Ontario and to address issues raised by NERC's Integration of Variable Generation Task Force. Of particular importance will be the improvement to provincial and inter-regional planning through the ability to account for the stochastic nature of variable renewable resources such as wind and solar from both a local and a wide-area perspective. Understanding future system energy capabilities and outcomes is becoming particularly important for a number of IESO functions including:

- Assessing future resource adequacy
- Assessing future operability

- Providing meaningful information to participants to support their production and outage planning
- Ensuring operational needs and implications are fully understood by planners and policy makers

MARKET ROAD MAP

The IESO proposes to develop a market road map that identifies market changes that would benefit Ontario's market structure and support GEGEA objectives. Issues driving the need for a review of Ontario's market strategy include: the complexity of our current market; the need to better integrate contract, market and operational drivers; the role and value of the market and the role of efficient pricing, both generally and in light of developments such as smart grid-enabled demand response; and the importance to Ontario of market co-ordination with surrounding jurisdictions.

ADDRESSING THE INCREASING COMPLEXITY OF REAL-TIME OPERATIONS

Over the past year, the IESO has seen how complex it is to achieve efficient operations with most suppliers operating under the influence of long-term contracts or revenue guarantees that are largely price insensitive. Going forward, this complexity will only grow with the significant increases in Ontario's renewable generation. The IESO remains committed to meeting the challenge of integrating these new renewable resources into its operations seamlessly, reliably and efficiently, though that will require modifications to processes, establishing needed market rules, and developing the new tools required to help manage this new operating environment.

To address this increasing complexity, the IESO is launching the following initiatives:

Create a Renewables Integration function in the Control Room

- Adding one additional position to our shift staff complement, on a 7 x 24 hour basis, to integrate the increased number of connected facilities, most of which will be variable generation sources, and to help participants address their complex operating challenges (creation of a Renewables Integration Desk)

System Operations Simulator

- Providing staff with training opportunities on a power system simulator to ensure ongoing compliance with changing NERC standards (initially using a basic system simulator, during which a needs assessment will be undertaken for a full replica simulator, as the user requirements are identified for the IESO's next Energy Management System)

Compliance Program

- Increasing the focus on compliance and enforcement of Market Rules, NPCC Criteria, NERC Standards and other related standards and obligations to operate effectively in today's increasingly integrated operating environment (All market participants, including the IESO, require an effective in-house compliance program, which will necessitate greater effort in the coming years to undertake risk identification, analysis and mitigation)

OTHER COMMITTED PROJECTS

The Enhanced Day-Ahead Commitment (EDAC) Process is designed to increase the efficiency of the electricity market through the advanced scheduling and commitment of resources required to provide electricity on a daily basis. It is currently on schedule and expected to be fully operational by the fall of 2011.

The IESO also has a number of projects underway to upgrade existing systems that have reached the end of their life and to introduce improvements to our infrastructure and customer-facing tools. These include projects related to customer information systems, system limit derivation and outage management.

FEE IMPACTS

In recognition of the impact that difficult economic conditions have had on customers and stakeholders, the IESO held its fee flat in 2010 by finding efficiencies and focusing on priorities, consistent with the 2009 organizational realignment. The IESO also restructured its financing arrangements at lower costs and continued to manage its capital projects consistent within approved budgets.

Delivering on the expectations associated with the GEGEA has already added to the IESO's work volumes, and will continue to do so in the coming years. Budgeted staff levels for 2011 need to rise as a result of work volume increases in key areas; however these increases will be moderated by efficiencies that have already been found, and are expected to continue across the IESO.

By reviewing and revising existing processes, practices and tools, the IESO's management team has achieved efficiencies across the organization, including in the areas of Settlements, Information Technology, Control Room Support, Market Information, Marketplace Training, Stakeholder Engagement, Market Entry and Finance, among others.

Continuing to find and implement efficiencies will be an ongoing focus of operations as the IESO re-invents so many aspects of the business to align operations with the new realities of this greener grid. However, there are resource implications stemming from the IESO's increased workload. To ensure the company has the resources required to meet its responsibilities, the IESO will be seeking a flat fee in 2011, with an expectation that the increases in the following two years would be in the order of two per cent. Total operating costs for 2011 are budgeted to be \$128.3 million, an increase of \$3.5 million (2.8 per cent) from the 2010 budget, attributable primarily to necessary staffing increases.

As part of its 2011 rate application to the Ontario Energy Board, the IESO will be proposing to retain any 2010 projected surplus to assist in rate stabilization and to address the higher than normal risk that energy volumes will be lower than assumed.

FINANCIAL OVERVIEW

The IESO's fiscal management continues to be based on a simple objective – to demonstrate continued diligent financial management while achieving its corporate objectives.

The IESO operates two separately funded aspects of the business – wholesale operations and the Smart Metering Entity. The financial outlook related to the IESO usage fee is included below and the financial outlook related to the Smart Metering Entity is included later in the document.

Financial Outlook Related to the IESO Usage Fee:

PROJECTED 2010 FINANCIAL RESULTS

The following table outlines the 2010 financial projections compared to the approved budgets for the year:

(\$ millions)	2010 Projected	2010 Budget	Projected Variance
Usage Fees	124.4	122.8	1.6
Cost Recovery for Services	3.1	2.0	1.1
Total Revenues	127.5	124.8	2.7
OM&A Program Costs	89.9	91.5	1.6
OM&A Pension Expense (Net)	14.8	11.3	(3.5)
Amortization	14.0	21.0	7.0
Net Interest	0.7	1.0	0.3
Total Costs	119.4	124.8	5.4
Operating Surplus	8.1	–	8.1
Accumulated Operating Surplus	13.1	5.0	8.1

The most recent projected 2010 financial results demonstrate the continued strong cost controls on the part of IESO management.

The usage fee revenues are a direct result of energy volumes within the province and exports. Provincial volumes are down relative to budget as a result of a strained economy and successful conservation initiatives. However, due to higher than expected exports, the energy volumes for 2010 are projected at 151.3 TWh, some 2.0 TWh above the budgeted volumes of 149.3 TWh.

On the cost side, the IESO has been effective in managing its operations, maintenance and administration (OM&A) costs to levels \$1.6 million below the approved budget. However, actual interest rates required to be used to calculate pension expense were lower than the planning assumption, which increases the projected pension expense for the year. Amortization costs are projected to be \$7.0 million less than the approved budget in 2010 largely as a result of successful asset management resulting in extensions to some asset service lives. The projected capital spending level for 2010 is \$18.5 million, some \$3.1 million below the approved budget of \$21.6 million.

FINANCIAL OUTLOOK 2011-2013

The financial outlook to 2011 and beyond extends the message from 2010 – prudent cost management on the part of the IESO. Financial statements related to the IESO Usage Fee are included in Appendix 1.

The following table outlines the planned operating results over the planning period:

(\$ millions)	2010 Projected	2011 Budget	2012 Plan	2013 Plan
Usage Fees	124.4	126.0	124.1	124.5
Market-related Interest Income	–	–	2.8	2.6
Cost Recovery for Services	3.1	2.9	2.8	2.8
Total Revenues	127.5	128.9	129.7	129.9
OM&A Program Costs	89.9	96.3	98.0	98.9
OM&A Pension Expense (Net)	14.8	16.7	15.9	17.0
Amortization	14.0	14.3	18.7	21.8
Net Interest	0.7	1.0	1.9	1.8
Total Costs	119.4	128.3	134.5	139.5
Operating Surplus/Deficit	8.1	0.6	(4.8)	(9.6)
Accumulated Operating Surplus	13.1	13.7	8.9	(0.7)

Total Revenues

As depicted in the table, revenues are dependent on the forecast energy volumes.

	2010 Projected	2011 Budget	2012 Plan	2013 Plan
Outlook Demand Forecast (TWh)	140.9	143.6	140.4	138.7
Less: Transmission Line Losses (TWh)	(3.1)	(3.2)	(3.1)	(3.1)
Exports (TWh)	13.5	12.9	10.8	10.0
Total Energy Volumes (TWh)¹	151.3	153.3	148.1	145.6
IESO Usage Fee (\$/MWh)	\$0.822	\$0.822	\$0.838	\$0.855
Total Usage Fee Revenue	\$124.4	\$126.0	\$124.1	\$124.5

The above usage fees represent a flat rate in 2011 and a 2% increase in both 2012 and 2013.

Cost recovery revenues are budgeted to remain relatively flat over the planning period. These revenues represent services that are provided at cost and there are corresponding costs within the OM&A program for these services.

The actual, projected and budgeted interest income earned on other real-time market investments to the end of 2011 is projected to be insufficient to offset the estimated investment loss on the IESO's investment in Asset-Backed Commercial Paper (ABCP) to the end of 2011; therefore, no market-related investment income is assumed until 2012.

¹ Load forecasts used in calculating the usage fees over the planning horizon are based on the 18-month Outlook released May 20, 2010.

Total Costs

(\$ millions)	2010 Projected	2011 Budget	2012 Plan	2013 Plan
OM&A Program Costs	89.9	96.3	98.0	98.9
OM&A Pension Expense (Net)	14.8	16.7	15.9	17.0
Amortization	14.0	14.3	18.7	21.8
Interest (Net)	0.7	1.0	1.9	1.8
Total Operating Costs	119.4	128.3	134.5	139.5

Over the planning period, it is expected that total operating costs are expected to increase by \$8.9 million, \$6.2 million and \$5.0 million respectively.

OM&A Program Costs

OM&A program costs are budgeted to increase by \$6.4 million in 2011, \$1.7 million in 2012 and \$0.9 million in 2013. These program cost increases are largely the result of the IESO's budgeted staff costs over the planning period. The IESO will continue to employ focused vendor management to limit inflationary and other increases in computer support, maintenance and equipment costs and telecommunication costs.

Staffing

In 2010, IESO management achieved efficiencies resulting from the 2009 organizational redesign, as well as through business process redesign and the acceptance of increased risk levels in some areas of the business. Identifying and implementing further efficiencies will continue to be our focus, however, the workload expected for 2011 is dramatically different than the assumptions included in last year's business plan. As a result, IESO management expects increased staff levels beginning in 2011 in key areas, including support of renewable integration, compliance activities and project effort required in advance of capital work.

As the following table indicates, budgeted staffing levels will fluctuate from year to year depending on the business requirements. The total budgeted staff level of 448 for 2010 will increase in 2011, reflecting the need for new resources primarily to ensure that new renewable facilities can be efficiently integrated into the operation of Ontario's power system without compromising reliability and to address customer, stakeholder and regulatory needs. These staffing levels include regular and temporary staff for wholesale operations, Smart Metering Entity, and Customer Education.

	2009		2010		2011		2012		2013	
	Regular	Temp	Regular	Temp	Regular	Temp	Regular	Temp	Regular	Temp
Wholesale Operations	430	14	414	18	430	25	430	20	430	19
Customer Education	1	1	1	1	1	–	1	–	1	–
Smart Metering	4	10	4	10	7	14	7	5	7	4
Total	435	25	419	29	438	39	438	25	438	23

OM&A Pension Expense²

(\$ millions)	2010 Projected	2011 Budget	2012 Plan	2013 Plan
Pension Costs ³	15.7	18.6	18.0	19.3
Capitalized Pension	(0.5)	(0.6)	(0.6)	(0.6)
SERP Investment Income ⁴	(0.4)	(1.3)	(1.5)	(1.7)
OM&A Pension Expense (net)	14.8	16.7	15.9	17.0

The pension expense reflects no change in pension benefits over the planning period.

Amortization

(\$ millions)	2010 Projected	2011 Budget	2012 Plan	2013 Plan
Amortization	14.0	14.3	18.7	21.8

The amortization expense reflects the following capital spending:

(\$ millions)	2010 Projected	2011 Budget	2012 Plan	2013 Plan
Enhanced Day-Ahead Commitment	12.5	9.9	–	–
On Line Limits Development	0.3	0.5	1.5	1.0
Enrolment Automation	0.5	0.2	0.1	0.1
Outage Management Replacement	0.1	–	–	–
NERC Standards Compliance Monitoring Tool	0.3	–	–	–
Energy Modelling	–	0.2	–	–
Renewables Integration	–	1.0	2.5	3.0
Total Key Capital Projects	13.7	11.8	4.1	4.1
Other Projects	4.8	9.7	14.6	14.5
Total Capital Projects	18.5	21.5	18.7	18.6

The total 2010-2013 capital spending level of \$77.3 million includes an anticipated spending level for the Enhanced Day-Ahead Commitment (EDAC) of \$26.5 million⁵, as approved previously by the IESO Board and included in the 2009 Business Plan approved by the OEB. With the focus of capital effort on EDAC, the remaining average annual spending level for the planning period of \$13.7 million (\$54.9 million in total) is slightly higher than actual and projected spending levels over the past number of years, reflecting the need to invest in existing and replacement solutions, as well as additional tools and services to improve forecasting and impact of demand over the planning period.

The IESO continues to have an ongoing need for changes and reprioritization, and accordingly, the business planning process is not used as the mechanism for capital project approval. Rather, through business planning, an appropriate capital envelope is established for future years. This practice is consistent with prior years. As well, the IESO recognizes the need for robust disclosure and information about the projects for which this capital funding will be utilized.

Detailed project descriptions and timing are included in Appendix 2.

² Pension expense is based on a discount rate of 6.5%.

³ As a result of changes to accounting standards effective January 1, 2011, pension costs include \$1.6 million in 2011 for unamortized past service costs and \$5.1 million per annum in 2011 to 2013 for unamortized actuarial losses.

⁴ The IESO's long-term investments represent corporate assets that have been notionally put in place to discharge the liabilities associated with the Supplemental Employee Retirement Plan (SERP).

⁵ \$4.1 million was spent on EDAC in 2009.

Interest Expense (Net)

(\$ millions)	2010 Projected	2011 Budget	2012 Plan	2013 Plan
Interest Expense (Net)	0.7	1.0	1.9	1.8

Net interest expense is comprised of the following components:

(\$ millions)	2010 Projected	2011 Budget	2012 Plan	2013 Plan
Interest on Debt	0.3	1.1	1.6	1.4
Financing Charges	0.6	0.5	0.5	0.5
Investment/Other Income	(0.1)	(0.1)	(0.1)	–
Capitalized Interest	(0.1)	(0.5)	(0.1)	(0.1)
Net Interest Expense	0.7	1.0	1.9	1.8

In 2009, the IESO entered into a two-year note payable with Ontario Electricity Financial Corporation (OEFC) for \$78.2 million at an interest rate equal to Province of Ontario treasury bills plus 0.25% per annum. In April 2010 the IESO entered into a new unsecured credit facility with OEFC replacing one that was with a Canadian chartered bank. Advances under the credit facility are payable at an interest rate equal to Province of Ontario's cost of borrowing for a 30-day term plus 0.25% per annum.

The interest on debt also reflects the following assumptions:

(\$ millions)	2010 Projected	2011 Budget	2012 Plan	2013 Plan
Debt at End of Year	33.5	35.3	40.0	42.3
Average Interest Rate	0.92%	2.78%	3.7%	3.7%

Financial Outlook Related to the Smart Metering Entity:

In 2006, a regulation under the Electricity Act was issued expanding the IESO's objects to include responsibilities under the provincial government's Smart Metering Initiative (SMI). These responsibilities cover overall co-ordination of the Smart Metering System Implementation Program and project management of the development and delivery of the Meter Data Management and Repository (MDM/R).

In 2007, a regulation under the Electricity Act further designated the IESO as the interim Smart Metering Entity. As such, in addition to its current role, the IESO is responsible for the administration and operation of the MDM/R and the enrolment into the MDM/R of all the local distribution companies in the province.

In 2009, the IESO was requested by the Minister of Energy to produce a roadmap for the issuance of time-of-use bills across the province. Pursuit of the roadmap was endorsed by Government, including the required additional support from the IESO.

On August 4, 2010 the Ontario Energy Board issued its determination to mandate the implementation of time-of-use billing for all local distribution companies in the province. The mandate requires most LDCs to transition all of their customers to time-of-use in 2011.

The budget for the Smart Metering Implementation program is \$89 million, reflecting amounts for the MDM/R design, delivery, and operation for four years (thru February 2012) and support of time of use rollout. The IESO is forecasting to deliver the Smart Metering Implementation program within the approved budget.

From a cost perspective, it is intended that the IESO's internal and contracted expenses will be recovered through a regulatory mechanism, which will be independent of the IESO's current fee structure and of the revenues derived from the wholesale market. Until the regulatory mechanism is in place, the IESO has included preliminary estimates of high-level revenues and costs for its Smart Metering Entity activities. These are shown in the following table and reflected in the consolidated financial statements provided in Appendix 4.

All direct and/or incremental costs associated with the MDM/R will be charged separately from all other IESO costs that form part of the revenue requirements for the IESO usage fee.

At this point, the IESO does not expect to begin recovering its investment until the fourth quarter of 2011 or beyond. This will allow the IESO to develop a solution to address requirements identified by Measurement Canada related to the presentation of smart meter data on customer bills and, on the basis of OEB projections, complete enrolment of local distribution companies in the central data storage system. Approximately 10 per cent of Ontario's 4.6 million residential customers are currently being billed on a time of use basis through this system. The timing of the recovery of these costs has no impact on the IESO usage fee.

(\$ millions)	2009 Actual	2010 Projected	2011 Budget	2012 Plan	2013 Plan
SME Fees	–	–	–	33.0	33.0
Total Revenues	–	–	–	33.0	33.0
SME Program Costs	11.6	16.4	14.8	10.8	14.8
Amortization	3.1	1.6	1.7	2.8	4.6
Net Interest	0.4	0.5	1.5	1.9	2.1
Total Costs	15.1	18.5	18.0	15.5	21.5
Operating Surplus/(Deficit)	(15.1)	(18.5)	(18.0)	17.5	11.5
Accumulated (Deficit)	(25.9)	(44.4)	(62.4)	(44.9)	(33.4)

The relevant assumptions and resulting Smart Metering Entity balance sheet are included in Appendix 3.

Overall Financial Outlook:

The overall financial outlook of the IESO, including both wholesale operations and smart metering entity activities, are presented in the consolidated financial statements in Appendix 4.

Appendix 1: IESO Usage Fee Financial Statements

Actual and Pro Forma Statement of Operations and Accumulated Surplus

For the Year Ended December 31
(in Millions of Canadian Dollars)

	2009 Actual	2010 Projected	2011 Budget	2012 Plan	2013 Plan
REVENUES					
Usage Fees	124.3	124.4	126.0	124.1	124.5
Market-Related Interest Income	–	–	–	2.8	2.6
Cost Recovery for Services	1.4	3.1	2.9	2.8	2.8
Total Revenues	125.7	127.5	128.9	129.7	129.9
EXPENSES					
OM&A Program Costs	87.7	89.9	96.3	98.0	98.9
OM&A Pension Expense	12.1	14.8	16.7	15.9	17.0
Amortization	21.2	14.0	14.3	18.7	21.8
Net Interest	0.4	0.7	1.0	1.9	1.8
Total Expenses	121.4	119.4	128.3	134.5	139.5
Operating Surplus/(Deficit)	4.3	8.1	0.6	(4.8)	(9.6)
Rebates to Market Participants	(4.3)	–	–	–	–
Accumulated Surplus – Usage Fees	5.0	13.1	13.7	8.9	(0.7)
Market-Related Penalties & Fines	0.1	–	–	–	–
Customer Education Fund Expenditures	(0.5)	(0.5)	(0.3)	(0.3)	(0.3)
Accumulated Fines and Penalties	1.4	0.9	0.6	0.3	–

Actual and Pro Forma Statements of Financial Position

For the Year Ended December 31
(in Millions of Canadian Dollars)

	2009 Actual	2010 Projected	2011 Budget	2012 Plan	2013 Plan
ASSETS					
Current Assets					
Cash & Cash Equivalents	9.0	2.0	2.0	2.0	2.0
Accounts Receivable	13.5	14.7	14.7	18.1	18.4
Short-Term Prepaid Expenses	3.7	4.0	4.0	4.0	4.0
	26.2	20.7	20.7	24.1	24.4
Property & Equipment					
Property & Equipment in Service	367.3	374.2	412.2	430.9	449.5
Less: Accumulated Amortization	(300.4)	(314.4)	(328.7)	(347.4)	(369.2)
Net Book Value	66.9	59.8	83.5	83.5	80.3
Construction-in-Progress	7.0	18.6	2.0	2.0	2.0
	73.9	78.4	85.5	85.5	82.3
Other Assets					
Long-Term Investments	18.2	20.3	23.3	26.5	29.9
Prepaid Pension Expense	3.3	3.5	0.5	–	–
TOTAL ASSETS	121.6	122.9	130.0	136.1	136.6
LIABILITIES					
Current Liabilities					
Accounts Payable & Accrued Liabilities	19.1	19.3	19.3	19.3	19.4
Accrued Interest	–	0.1	0.3	0.3	0.2
Rebates to Market Participants	4.3	–	–	–	–
	23.4	19.4	19.6	19.6	19.6
Debt	40.8	33.5	35.3	40.0	42.3
Accrued Pension Liability	–	–	–	1.5	4.3
Accrual for Employee Future Benefits Other than Pension	51.0	56.0	60.8	65.8	71.1
TOTAL LIABILITIES	115.2	108.9	115.7	126.9	137.3
Accumulated Surplus – Usage Fees	5.0	13.1	13.7	8.9	(0.7)
Accumulated Fines and Penalties	1.4	0.9	0.6	0.3	–
TOTAL LIABILITIES & ACCUMULATED SURPLUS	121.6	122.9	130.0	136.1	136.6

Actual and Pro Forma Statement of Cash Flows

For the Year Ended December 31
(in Millions of Canadian Dollars)

	2009 Actual	2010 Projected	2011 Budget	2012 Plan	2013 Plan
OPERATING ACTIVITIES					
Operating Surplus/(Deficit) After Rebates	–	8.1	0.6	(4.8)	(9.6)
Change in Rebates to Market Participants	2.9	(4.3)	–	–	–
Market Penalties and Fines	0.1	–	–	–	–
Customer Education Fund Expenditures	(0.5)	(0.5)	(0.3)	(0.3)	(0.3)
Amortization	21.2	14.0	14.3	18.7	21.8
Change in Fair Value Long-Term Investment	(1.2)	(0.4)	(1.3)	(1.5)	(1.7)
Pension Cost	12.5	15.7	18.6	18.0	19.3
Increase in Accrual for Employee Future Benefits	6.2	7.1	7.0	7.3	7.8
Pension Plan Contributions	(17.6)	(15.9)	(15.6)	(16.0)	(16.5)
Payment of Employee Future Benefits	(1.7)	(2.1)	(2.2)	(2.3)	(2.5)
Other Non-Cash Items Related to Operations	(1.2)	(1.2)	0.2	(3.4)	(0.3)
Cash Provided from Operations	20.7	20.5	21.3	15.7	18.0
INVESTING ACTIVITIES					
Purchase of Long-Term Investments	(2.0)	(1.7)	(1.7)	(1.7)	(1.7)
Investment in Property & Equipment	(9.1)	(18.5)	(21.4)	(18.7)	(18.6)
Cash Used in Investing Activities	(11.1)	(20.2)	(23.1)	(20.4)	(20.3)
FINANCING ACTIVITIES					
Issue/(Retirement) of Debt	(13.3)	(7.3)	1.8	4.7	2.3
Cash Provided from Financing Activities	(13.3)	(7.3)	1.8	4.7	2.3
Net Change in Cash Flow	(3.7)	(7.0)	–	–	–
Cash and Cash Equivalents – Beginning of Year	12.7	9.0	2.0	2.0	2.0
Cash and Cash Equivalents – End of Year	9.0	2.0	2.0	2.0	2.0

Appendix 2: IESO Capital Projects

(\$ Thousands)

Project	Stage	2010 Capital	2011 Capital	2012 Capital	2013 Capital
Key Initiatives					
Enhanced Day-Ahead Commitment		12,500	9,900		
On Line Limits Development (OLLD)	OLLD Phase 11, Stage 2 - DSA Tools Enhancements	300			
	Other OLLD Projects		500	1,500	1,000
Enrolment Automation	Customer Information and Data Efficiency	400			
	Registration Automation	100	200		
	Grid Assessments Automation			120	130
Outage Management Replacement	Outage Submission Automation	100			
NERC Standards Compliance Monitoring Tool		300			
Energy Modelling			200		
Renewables Integration			1,000	2,500	3,000
Key Initiatives Total		13,700	11,800	4,120	4,130

Other Projects					
Alternative Regulation Technologies		100	500		
Centralized Forecast for Wind Generation		100	700		
PKI Replacement - (Strong Authentication Technology)		200	300		
Dispatch Issues	Load Predictor/Self-schedulers	300	200		
Market Information Management Refresh	Technical Refresh		500	1,000	1,500
Operations Simulator			500	2,000	
RTU Router Upgrade & MPLS Migration		200	300	250	
Aspen Technical Refresh		200	400		
BITS Refresh			300	700	
Revenue Metering System Replacement			500	1,500	
Commercial Reconciliation System (CRS) Replacement				500	1,500
Message Exchange Refresh				300	600
PBX/Enhanced Voice Communication			500	700	
SDR Refresh			500	1,300	
UPS Replacement				600	
Network Refresh			400	600	
OSL Refresh					1,000
EMS/MIS Refresh				500	2,500
Outage Management Replacement	Internal System Replaced			100	900
Building Switchgear Electronic Protection Replacement				1,000	
RT Improvements (3 part bidding, multi hour optimization)					500
Misc. Application and Infrastructure Projects <\$500,000		3,000	2,900	2,300	5,000
Other Project Total		4,100	8,500	13,350	13,500

Project	Stage	2010 Capital	2011 Capital	2012 Capital	2013 Capital
Funding Provisions					
Increased Disk Storage		300	200	200	200
Interconnection Metering Replacements			200	200	200
Microsoft Licenses		100	300	350	350
Miscellaneous Hardware and Software		100	100	100	100
IESO Energy Conservation Initiatives			100	100	100
Rack Enclosure Capacity Planning		200	250	250	
Funding Provision Total		700	1,150	1,200	950
Capital Funding Total		18,500	21,450	18,670	18,580

Key Initiatives - Descriptions

Project	Stage	Description
Enhanced Day-Ahead Commitment		Improved efficiency of unit commitment to reduce the overall cost of supplying market demand through improved operational signals to generators, which, among other things, should result in improved coordination of gas and electricity markets. This will also support the anticipated changes in Ontario's electricity sector without inhibiting future market evolution initiatives.
On Line Limits Development (OLLD)	OLLD Phase 11, Stage 2 - DSA Tools Enhancements	<p>Project to:</p> <ol style="list-style-type: none"> 1. Add functionality to the DSA Suite of tools, including VSAT, TSAT and DSA Manager, and the interface with models extracted from the ABB system model downloads. 2. Add two more studies in the ABB Dispatcher Power Flow environment. <p>These enhancements will provide the functionality to apply the tools across Ontario.</p>
	Other OLLD Projects	These projects will enhance functionality and fully integrate the Online Limits Derivation capability into the EMS and MIS/DSO functions.
Enrolment Automation	Customer Information and Data Efficiency	The project will develop a new Customer Data Management System (CDMS) that eventually will replace multiple stand-alone systems that contain customer information as well as the IESO's Participant Lifecycle (PLC) system expected to be retired in 2010. The CDMS will be flexible, expandable and will enhance business efficiency.
	Registration Automation	This replaces the Customer Process Automation project. The Registration Automation project will automate all aspects of the Registration Process for both MP and IESO achieving early improvements and efficiencies necessary for managing the renewable generation coming on line.
	Grid Assessments Automation	This replaces the Customer Interface project. It will automate all aspects of the Connection Assessment Process for both MP and IESO achieving early improvements and efficiencies necessary for managing the large volume of new renewable generation and transmission projects.
Outage Management Replacement	Outage Submission Automation	This project will provide all market participants with a user interface for submitting and viewing their outages. This project will reduce IESO effort to process outages for MPs that do not have an Automatic Programmable Interface (API) with the IESO.
NERC Standards Compliance Monitoring Tool		This project is required in order to improve management and effectiveness of the NERC standards compliance process at the IESO. The tool will provide improved monitoring capabilities and reporting and reduce the audit preparation time in advance of the NERC audit currently anticipated for 2011.

Project	Stage	Description
Energy Modelling		Energy modelling will provide the IESO with the capability to perform detailed probabilistic assessments of resource adequacy, transmission adequacy and congestion and elements of system operability over timeframes of typically one year or more, with hourly resolution, further enabling the IESO to effectively meet its business objective to facilitate the implementation of Feed-in-Tariff (FIT) facilities and other GEA infrastructure developments.
Renewables Integration		New consolidated project for Renewables Integration. Additional tools and services are required by the IESO to improve the forecasting of available energy from renewable sources and the impacts on demand. Also includes various additional system changes to implement the Renewables Integration Project design into other related IESO processes. Estimates are based on limited analysis of the high level business design.

Other Capital Projects - Descriptions

Project	Stage	Description
Alternative Regulation Technologies		Integrate Loads into the Regulation Service.
Centralized Forecast for Wind Generation		Wind forecasting for renewable wind generators.
PKI Replacement - (Strong Authentication Technology)		PKI Replacement will allow us to replace the existing PKI certificates with another secure authentication means such as adaptive authentication.
Dispatch Issues	Load Predictor/Self-schedulers	Address dispatch issues related to the variability of dispatchable loads in real time and inaccurate schedules provided by self schedulers.
Market Information Management Refresh	Technical Refresh	The existing MIM system will be refreshed to extend its life and provide support for additional functionality required by the IESO Markets.
Operations Simulator		An Operations Simulator is required by NERC and will need to be implemented to support control room operations.
RTU Router Upgrade & MPLS Migration		This project will convert the IESO real-time telemetry network from Frame Relay to MPLS. This project will result in a substantial savings in telemetry costs for the IESO.
Aspen Technical Refresh		This project is a technical refresh which will upgrade or replace the existing Corporate File Server ASPEN. This will ensure that access to our Corporate Files is provided at an acceptable performance level as data volumes grow.
BITS Refresh		Replace the current corporate Business Intelligence Tool and internal reporting system.
Revenue Metering System Replacement		The Revenue Metering Repository system needs to be replaced.
Commercial Reconciliation System (CRS) Replacement		The Commercial Reconciliation System will be replaced.
Message Exchange Refresh		This project will replace the existing Message Exchange (MX) application. Significant functional and technological enhancements are expected. These changes are required to improve market participant interfaces and the API. There is also the assumption that MX should support operational instructions over the internet and enable provision of operation instructions to renewable resources.
PBX/Enhanced Voice Communication		The existing IESO phone system will be refreshed or replaced to improve internal and customer communications.
SDR Refresh		The project will refresh the IESO Data Warehouse to address maintainability and usability aspects.
UPS Replacement		The IPM Uninterruptible Power Supply is aging and should be replaced.
Network Refresh		This project will upgrade the Network infrastructure components as part of a five year Lifecycle Update.

Project	Stage	Description
OSL Refresh		This project will replace the existing Operating Security Limits (OSL) application. Significant functional enhancements are envisioned to improve the user experience and integrate with the OLLD initiatives.
EMS/MIS Refresh		Lifecycle update/replacement to the Energy management System (EMS) and Market Information System (MIS) application platforms. This will be an RFP process to evaluate all vendors who offer to meet our requirements for the EMS/MIS. A SoW will then be developed and the work to replace or upgrade the current EMS/MIS will be undertaken.
Outage Management Replacement	Internal Systems Replaced	This project will replace the existing outage management systems (IOMS and OS) and associated APIs.
Building Switchgear Electronic Protection Replacement		Replacement of internal electrical protection equipment for the Clarkson building switchgear.
RT Improvements (3 part bidding, multi hour optimization)		Focus on Real Time efficiency - through our EDAC work we discovered the large efficiencies which can be brought forward with additional information from generators, importers and exporters and optimization over a short time frame to reflect the characteristics of the supply mix we are creating. This step would bring three part bidding to RT to encompass quick start and not so quick start facilities and would optimize dispatch over several hours. Once again we can look to other markets for implementation experience of these changes. This would allow a move to increased frequency of dispatch with neighbouring markets, improved ability to incorporate variable dispatch, and an improved coordination signal in HOEP.

Appendix 3: Smart Metering Entity

Smart Metering Entity - Projected Balance Sheet

(\$ millions)	2009 Actual	2010 Projected	2011 Budget	2012 Plan	2013 Plan
ASSETS					
Property & Equipment	12.6	13.6	16.6	22.8	18.2
TOTAL ASSETS	12.6	13.6	16.6	22.8	18.2
LIABILITIES					
Accounts Payable & Accrued Liabilities	1.1	1.0	1.0	1.0	1.0
Debt	37.4	57.0	78.0	66.7	50.6
TOTAL LIABILITIES	38.5	58.0	79.0	67.7	51.6
Accumulated Deficit	(25.9)	(44.4)	(62.4)	(44.9)	(33.4)
TOTAL LIABILITIES & ACCUMULATED DEFICIT	12.6	13.6	16.6	22.8	18.2

Smart Metering Entity - Financial Assumptions

- SME and MDM/R Operations: To support and operate the Smart Metering Entity and the MDM/R, resources will be required in the areas of MDM/R service management, registration and enrolment, change and release management, quality assurance and testing, help desk and LDC service support, training, communications, stakeholder management, design authority, technical architecture, audit, finance, settlements, legal, regulatory, information technology, and human resources. Resource requirements: up to 14 full time equivalents (FTEs) for 2011 to 2012, and 13 FTEs for 2013 to 2017 depending on activity levels. These resource requirements are planned to be met through 6.5 regular employee FTEs, 2.5 FTEs of support from IESO's mainstream business, and by 4 to 5 FTEs of temporary resources as required for specific exercises such as major system upgrades. Shared support from IESO's business will be primarily in the areas of finance, settlements, legal, regulatory, information technology and human resources, and that this support work will be resourced through over-time, temporary resources or other means.
- Accelerated TOU Implementation Plan and support of OEB Mandate, which is expected to bring an increase in parallel registration activity, will result in specific resource requirements of nine temporary staff in 2011.
- Changes to the MDM/R and contingency resource requirements: SME forecasted costs include a contingency provision for changes to the MDM/R and supporting the needs of MDM/R service recipients in the operation and support of the MDM/R. These contingency costs have been forecast until the end of December 2017 and are intended to cover IESO labour, contractor costs, external vendor costs, and the cost of implementing changes to the MDM/R to support Measurement Canada requirements. These costs and resources are not intended to cover extraordinary or significant changes to the SME, MDM/R or the MDM/R Agreement.
- The IESO and the Ministry of Energy have set up a working group with representatives of affected stakeholders to develop a practical and cost-effective way to modify metering and billing systems to comply with Measurement Canada requirements. As soon as a reasonable schedule and cost estimate for the MDM/R portion of the solution has been determined we will establish a budget and update our forecasts.

- The development costs for the Meter Data Management and Repository are being amortized over a ten-year service life.
- The development costs for the MDM/R are being amortized over a 10-year service life.
- Revenues used a model that derives a monthly fee based on, as a minimum, the total 4.6 million smart meters that are projected to be installed across the province.
- Required debt financing will be obtained through the IESO's OEFC note payable, and the corporate credit facility.

Appendix 4: Consolidated Financial Statements

Actual and Pro Forma Statement of Operations and Accumulated Surplus

For the Year Ended December 31
(in Millions of Canadian Dollars)

	2009 Actual	2010 Projected	2011 Budget	2012 Plan	2013 Plan
REVENUES					
Usage Fees	124.3	124.4	126.0	124.1	124.5
SME Fees	–	–	–	33.0	33.0
Market-Related Interest Income	–	–	–	2.8	2.6
Cost Recovery for Services	1.4	3.1	2.9	2.8	2.8
Total Revenues	125.7	127.5	128.9	162.7	162.9
EXPENSES					
OM&A Program Costs	99.1	106.2	110.9	108.6	113.5
OM&A Pension Expense	12.3	14.9	16.9	16.1	17.2
Amortization	24.3	15.6	16.0	21.5	26.4
Net Interest	0.8	1.2	2.5	3.8	3.9
Total Expenses	136.5	137.9	146.3	150.0	161.0
Operating Surplus/(Deficit)	(10.8)	(10.4)	(17.4)	12.7	1.9
Rebates to Market Participants	(4.3)	–	–	–	–
Accumulated Surplus – Usage fees	5.0	13.1	13.7	8.9	(0.7)
Accumulated Deficit – SME fees	(25.9)	(44.4)	(62.4)	(44.9)	(33.4)
Accumulated Fines and Penalties	1.4	0.9	0.6	0.3	–

Actual and Pro Forma Statements of Financial Position

For the Year Ended December 31
(in Millions of Canadian Dollars)

	2009 Actual	2010 Projected	2011 Budget	2012 Plan	2013 Plan
ASSETS					
Current Assets					
Cash & Cash Equivalents	9.0	2.0	2.0	2.0	2.0
Accounts Receivable	13.5	14.7	14.7	18.1	18.4
Short-Term Prepaid Expenses	3.7	4.0	4.0	4.0	4.0
	26.2	20.7	20.7	24.1	24.4
Property & Equipment					
Property & Equipment in Service	385.5	395.0	437.7	465.4	484.0
Less: Accumulated Amortization	(306.0)	(321.6)	(337.6)	(359.1)	(385.5)
Net Book Value	79.5	73.4	100.1	106.3	98.5
Construction-in-Progress	7.0	18.6	2.0	2.0	2.0
	86.5	92.0	102.1	108.3	100.5
Other Assets					
Long-Term Investments	18.2	20.3	23.3	26.5	29.9
Prepaid Pension Expense	3.3	3.5	0.5	–	–
	21.5	23.8	23.8	26.5	29.9
TOTAL ASSETS	134.2	136.5	146.6	158.9	154.8
LIABILITIES					
Current Liabilities					
Accounts Payable & Accrued Liabilities	20.2	20.3	20.3	20.3	20.4
Accrued Interest	–	0.1	0.3	0.3	0.2
Rebates to Market Participants	4.3	–	–	–	–
	24.5	20.4	20.6	20.6	20.6
Debt	78.2	90.5	113.3	106.7	92.9
Accrued Pension Liability	–	–	–	1.5	4.3
Accrual for Employee Future Benefits Other than Pension	51.0	56.0	60.8	65.8	71.1
TOTAL LIABILITIES	153.7	166.9	194.7	194.6	188.9
Accumulated Surplus – Usage Fees	5.0	13.1	13.7	8.9	(0.7)
Accumulated Deficit - SME Fees	(25.9)	(44.4)	(62.4)	(44.9)	(33.4)
Accumulated Fines and Penalties	1.4	0.9	0.6	0.3	–
TOTAL LIABILITIES & ACCUMULATED SURPLUS	134.2	136.5	146.6	158.9	154.8

Actual and Pro Forma Statement of Cash Flows

For the Year Ended December 31
(in Millions of Canadian Dollars)

	2009 Actual	2010 Projected	2011 Budget	2012 Plan	2013 Plan
OPERATING ACTIVITIES					
Operating Surplus/(Deficit) after Rebates	(15.1)	(10.4)	(17.4)	12.7	1.9
Change in Rebates to Market Participants	2.9	(4.3)	–	–	–
Market Penalties and Fines	0.1	–	–	–	–
Customer Education Fund Expenditures	(0.5)	(0.5)	(0.3)	(0.3)	(0.3)
Amortization	25.9	15.6	16.0	21.5	26.4
Change in Fair Value Long-Term Investment	(1.2)	(0.4)	(1.3)	(1.5)	(1.7)
Pension Cost	12.5	15.7	18.6	18.0	19.3
Increase in Accrual for Employee Future Benefits	6.2	7.1	7.0	7.3	7.8
Pension Plan Contributions	(17.6)	(15.9)	(15.6)	(16.0)	(16.5)
Payment of Employee Future Benefits	(1.7)	(2.1)	(2.2)	(2.3)	(2.5)
Other Non-Cash Items Related to Operations	(2.5)	(1.3)	0.2	(3.4)	(0.3)
Cash Provided from Operations	9.0	3.5	5.0	36.0	34.1
INVESTING ACTIVITIES					
Purchase of Long-Term Investments	(2.0)	(1.7)	(1.7)	(1.7)	(1.7)
Investment in Property & Equipment	(10.6)	(21.1)	(26.1)	(27.7)	(18.6)
Cash Used in Investing Activities	(12.6)	(22.8)	(27.8)	(29.4)	(20.3)
FINANCING ACTIVITIES					
Issue/(Retirement) of Debt	(0.1)	12.3	22.8	(6.6)	(13.8)
Cash Provided from Financing Activities	(0.1)	12.3	22.8	(6.6)	(13.8)
Net Change in Cash Flow	(3.7)	(7.0)	–	–	–
Cash and Cash Equivalents – Beginning of Year	12.7	9.0	2.0	2.0	2.0
Cash and Cash Equivalents – End of Year	9.0	2.0	2.0	2.0	2.0

Independent Electricity System Operator

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October 1, 2010

The Honourable Brad Duguid
Minister of Energy
900 Bay Street, 4th Floor, Hearst Block
Toronto, Ontario M7A 2E1

Dear Minister Duguid:

Re: IESO 2011-2013 Business Plan

I am pleased to provide you with the IESO's Business Plan for the 2011-2013 planning period. Under *The Electricity Act, 1998*, the IESO is required to submit its Business Plan to you for approval prior to making application on November 1, 2010 to the Ontario Energy Board (OEB) for approval of next year's proposed expenditures, fees and revenue requirements.

As you will know, the IESO was able to implement a number of efficiencies which allowed us to avoid a fee increase this year, maintaining our 2010 usage fee at the 2009 level of \$0.822/megawatt-hour or less than one tenth of one cent per kilowatt-hour. The IESO will continue to increase our efficiencies and improve productivity.

With the implementation of the government's renewable energy policy, coal-fired generation is being phased out and substantial amounts of new wind, solar and hydroelectric capacity are being added to the supply mix. The 2011-2013 Business Plan addresses the implications of that changing supply mix in Ontario and outlines actions and resources needed from the IESO to ensure the new renewable facilities can be reliably and efficiently integrated into the operation of Ontario's power system.

Despite our best efforts to manage within existing staff levels, we will need to add resources to address the challenges ahead while continuing to meet our ongoing system and market objectives. While additional resources are needed to respond to customer, stakeholder and regulatory needs, the majority of new resources are required to implement the government's green energy policy.

The Green Energy and Green Economy Act initiatives are now moving from the planning and contracting phase to the implementation phase and responsibility for integrating these new renewable facilities is now with the IESO. As a result, the IESO will require more capability than we currently have. For example, to maintain reliability while introducing significant quantities of intermittent generation, we need to add a "renewable" desk in our control room requiring six staff to fill this round-the-clock position. Similarly, we need 10 additional staff to conduct the

Paul Murphy
President and CEO
paul.murphy@ieso.ca
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connection studies for contracted FIT projects and the analysis for the ongoing stream of system changes as these projects move into production. These and related requirements contribute to the need for an increase in our fees for 2011 of two per cent.

Stakeholder input was a key component of our business plan. Stakeholder-identified priorities helped influence the company's key initiatives for the 2011-2013 business planning period and I believe our proposed Business Plan has broad support amongst the IESO's Stakeholder Advisory Committee.

At this point, the IESO does not expect to begin recovering its investment in the Meter Data Management Repository (MDM/R) until the fourth quarter of 2011 or beyond. This will allow the IESO to develop a solution to address requirements identified by Measurement Canada related to the presentation of smart meter data on customer bills and, on the basis of OEB projections, complete enrolment of Local Distribution Companies in the central data storage system. Approximately 10 per cent of Ontario's 4.6 million residential customers are currently being billed on a time of use basis through this system. The timing of the recovery of these costs has no impact on the IESO usage fee.

The IESO has a proven track record when it comes to financial leadership. While the demands on the business have continued to grow, the rate charged to our customers has gone down since 2002. In fact, the proposed 2011 usage fee of \$0.838 per megawatt hour is almost 13 per cent lower than the rate charged in 2002.

We have briefed your Ministry staff on the Business Plan and I would be pleased to answer any questions you might have.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Paul Murphy', with a long horizontal flourish extending to the right.

Paul Murphy

Encl.

Ministry of Energy

Ministère de l'Énergie

Office of the Minister

Bureau du ministre

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MC-2010-3989

October 22, 2010

Mr Paul Murphy
President & CEO
Independent Electricity System Operator
410-655 Bay Street
Toronto ON M5G 2K4

Dear Mr. Murphy:

Thank you for submitting the Independent Electricity System Operator's (IESO) proposed 2011-13 Business Plan for my approval.

As you know, in light of ongoing economic circumstances, the McGuinty government has made a very clear commitment to expenditure restraint. In keeping with this commitment, I am looking to the IESO to find internal efficiencies and budget reductions where possible without compromising the safe, clean and reliable delivery of electricity that Ontarians expect.

For these reasons, I cannot approve your business plan, and I am referring it back to you for revision to be consistent with these initiatives. I look forward to receiving a revised business plan that more closely aligns with the requirements noted above before you proceed with the filing of your revenue requirement and fee application with the Ontario Energy Board.

Sincerely,

A handwritten signature in black ink, appearing to read 'Brad Duguid'.

Brad Duguid
Minister

c: Mr. David Lindsay, Deputy Minister
Mr. Craig MacLennan, Chief of Staff



October 29, 2010

The Honourable Brad Duguid
Minister of Energy
900 Bay Street
4th Floor, Hearst Block
Toronto, Ontario M7A 2E1

Independent Electricity
System Operator
655 Bay Street
Suite 410, PO Box 1
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Dear Minister:

Further to your October 22, 2010 letter, I am resubmitting the IESO 2011-2013 Business Plan for your approval prior to making application to the Ontario Energy Board for approval of next year's proposed expenditures, fees and revenue requirements.

As requested, we have reviewed our business plan proposal and considered the government's expenditure restraint initiatives within the context of our need to provide a safe, clean and reliable delivery of electricity. I am able to report that the IESO has revised its business plan and with your consent, will be submitting a request to the Ontario Energy Board for no increase in our fee for the second consecutive year. If approved by the OEB, our fees would remain at \$0.822 per MWH or less than one-tenth of one cent per kilowatt hour and 14 per cent less than the fee in 2003.

Let me assure you that we are aware of and have responded to the provincial government's restraint initiatives. We have constrained our resource base significantly in light of the difficult economic conditions faced by Ontario businesses and consumers. Since 2009, we have focused on decreasing our head count and have reduced our regular full time employee number by almost four per cent. We have taken significant steps to increase efficiencies and productivity, identified work that we either delayed or stopped altogether, and where possible did not fill vacancies created through retirement or other attrition. We also found efficiencies through an internal restructuring of the organization and reduced the number of senior management. We have made the IESO a leaner, more efficient organization without compromising our ability to continue to operate the system reliably and at the lowest practical cost for consumers.

However, the Green Energy Act and the overwhelming response to the Ontario Power Authority's Feed-In-Tariff program have fundamentally changed Ontario's electricity landscape.

.... 2

Paul Murphy
President and CEO
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Page Two

In particular, the implementation of the government's clean energy policies is bringing with it a significant transformation in the overall supply mix and a move from large centralized supply facilities to a mix of large and very distributed small facilities. Over the last few years the sector has focussed on planning and contracting for these changes but the wave of new facilities is now materializing and the connection assessment and related work required to incorporate these facilities reliably into the system has now landed on the IESO's doorstep. The electricity system that has taken decades to put in place will be significantly altered in a few short years and managing the complexities around that change is requiring us to prepare now if we are to maintain the high standard of electricity service that Ontarians expect of us and that North American regulators require of us.

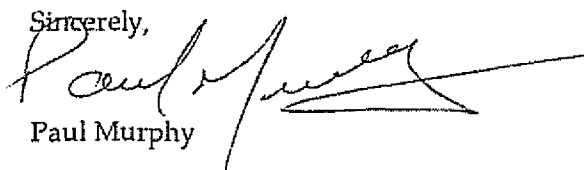
In the next few years coal will be phased out as a supply source, less than a decade since it accounted for more than 25 per cent of Ontario's electricity needs. While that coal capacity is being replaced with gas, the gas generators are at different locations and with different operating characteristics than coal. We will also be relying more on renewable sources of electricity, almost all of which is variable in nature, with its contribution dependent on wind and sunny conditions and our ability to correctly forecast and respond to those conditions. Integrating the gas and renewable facilities is also requiring significant changes and additions to the transmission and distribution systems.

The IESO is subject to an increasing number of complex and constantly evolving obligations in the management of its reliability and compliance responsibilities. North American reliability standards have understandably become increasingly robust since the blackout in 2003. The application of these new and revised international reliability standards is requiring the IESO to expand its existing focus on compliance and enforcement efforts.

As Ontario's reliability authority, the IESO has an obligation to comply with international reliability standards. Ontarians expect us to continue to carry out our system and market responsibilities and implement the most significant electricity system changes in Ontario's history without compromising the safe, clean and reliable delivery of electricity. We cannot continue to meet those obligations without the required resources identified in our business plan.

I would be pleased to answer any questions you may have and given our November 1, 2010 commitment for filing, look forward to receiving your approval.

Sincerely,

A handwritten signature in black ink, appearing to read "Paul Murphy", with a long horizontal flourish extending to the right.

Paul Murphy

cc: David Lindsay, Deputy Minister, Ministry of Energy
Craig MacLennan, Chief of Staff, Minister's Office

Ministry of Energy

Ministère de l'Énergie

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MC-2010-4091

November 1, 2010

Mr Paul Murphy
President & CEO
Independent Electricity System Operator
410-655 Bay Street
Toronto ON M5G 2K4

Dear Mr. Murphy:

Thank you for submitting a revised version of the Independent Electricity System Operator's (IESO) 2011-13 Business Plan in response to my letter of October 22, 2010.

In keeping with the government's ongoing commitment to public sector expenditure restraint, I believe the IESO's revised business plan finds further internal efficiencies while ensuring the safe, clean and reliable delivery of electricity to Ontarians.

I am pleased to see that the IESO has reduced its total operating costs by about \$600,000 in 2011 and will be submitting an application to the Ontario Energy Board that will request that fees remain flat for the second consecutive year.

I would like to thank you and your staff for your efforts to implement measures that will contain expenses and manage impacts of your activities on electricity consumers.

For these reasons, I am now able to approve the IESO's 2011-13 Business Plan for the purposes of the *Electricity Act, 1998*.

Sincerely,

A handwritten signature in black ink, appearing to read 'BD', with a long horizontal flourish extending to the right.

Brad Duguid
Minister

c: Mr. David Lindsay, Deputy Minister
Mr. Craig MacLennan, Chief of Staff

Supplemental Financial Information

Projected 2010 Financial Results

2010 Projected Operating Results

Overall, the IESO is projecting a surplus of \$8.1 million for 2010 which would increase the accumulated operating surplus from \$5.0 million to \$13.1 million by year-end.

The IESO is proposing to retain any accumulated surplus to assist in rate stabilization and to address the higher than normal risk that energy volumes will be lower than assumed.

Usage Fees

The projected usage fee revenue for 2010 is \$124.4 million, approximately \$1.6 million higher than budget. This variance is a result of higher than budgeted exports in the year, offset by a projected decrease in Ontario demand.

The current forecasted energy volumes for Ontario demand and exports for 2010 are 151.3 TWh; 2.0 TWh higher than the energy levels used for budgeting. The following table outlines these variances:

TWh	2010 Projected¹	2010 Budget	Projected Variance
Ontario Demand (net of line losses)	137.8	139.3	(1.5)
Exports	13.5	10.0	3.5
Total	151.3	149.3	2.0

As outlined in the table, the projected variance in usage fee revenues is a result of higher projected exports which is partially offset by lower domestic demand.

¹ The 2010 projected energy volumes represent actual volumes to the end of July 2010 and forecast volumes for August through December 2010 based on the IESO's 18-month outlook released May 20, 2010.

Market-Related Interest Income

Market-related interest income represents interest earned on funds in the IESO-Administered Markets settlement clearing bank accounts. There are two ways that interest on market funds is earned:

- In the settlement of the market, funds collected from owing market participants (i.e., buyers) are paid to receiving market participants (i.e., sellers) two business days later. In the period between receipt and disbursement of market funds, the monies are invested.
- Market participants make periodic prepayments and the IESO invests these monies.

The IESO invests real-time energy market funds in highly rated, liquid, short term investments. In previous years these investments included notes known as asset-backed commercial paper (ABCP). The liquidity crisis in the Canadian market for ABCP, which began in 2007, impaired the value of the IESO's ABCP holdings and hence, the market-related interest income earned by the IESO.

In September 2010, the IESO liquidated their converted ABCP holdings and the IESO is anticipating that it will begin to again earn interest income on market-related investments starting in 2012. As shown below, the projected closing balance in the market-related investment account for 2010 is an accumulated loss of \$0.6 million. Accordingly, the IESO is projecting nil market related investment income for 2010.

(\$ millions)	
Actual interest income (2007 – 2009) ²	8.0
Projected interest income 2010 ²	0.5
Actual loss in ABCP	(9.1)
Closing balance for market investment income	(0.6)

² Includes interest income from restructured ABCP investments.

Operating, Maintenance & Administration (OM&A) Program Costs

Overall, the total OM&A program costs are projected to be \$1.6 million, or 1.7%, below budget.

The following table outlines the projected costs relative to budget.

(\$ millions)	2010 Projected	2010 Budget	Projected Variance
Staff Costs	62.4	62.6	(0.2)
Computer Support, Maintenance & Equipment	8.8	9.7	(0.9)
Contract Services & Consultants	7.9	8.1	(0.2)
Administration	7.5	7.8	(0.3)
Telecommunications	3.3	3.3	-
Total OM&A Program Costs	89.9	91.5	(1.6)

Staff Costs

Staff costs are expected to be \$0.2 million lower than planned. This is largely the result of management compensation constraints and managed hiring lags throughout the year (totalling \$1.3 million), offset by other higher post employment benefit costs of \$1.1 million.

Computer Support, Maintenance and Equipment Costs

Reductions in computer support, maintenance and equipment costs are the result of successful negotiation or renegotiation of contracts and savings on US dollar contracts (the IESO hedged much of its 2010 US dollar exposure in April 2010, a time when the Canadian dollar was at parity with the US dollar). In addition, external resources were shifted from ongoing OM&A work to necessary capital initiatives. These resources are typically utilized in ongoing system maintenance and their redirection was made possible through continued strong system performance.

Contract Services & Consultants

Contract services and consultants are expected to be \$0.2 million below budget due to numerous minor variances which include items such as negotiated savings associated with

external audits, insurance costs, and security checks and lower than expected Technical Panel expenses.

Administration Costs

Administration costs are projected to be \$0.3 million below budget due to savings resulting from the forward contract purchase of US dollars, specifically, for North American Electric Reliability Corporation (NERC) and Northeast Power Coordinating Council (NPCC) membership fees.

2010 Projected Balance Sheet

The following chart shows a projected balance sheet as at December 31, 2010, compared to the 2010 budget.

(\$ millions)	2010 Projected	2010 Budget	Projected Variance
Cash and Cash Equivalents	2.0	1.5	0.5
Accounts Receivable and Short-term Prepaid Expenses	18.7	16.6	2.1
Current Assets	20.7	18.1	2.6
Property and Equipment	78.4	74.4	4.0
Long-term Investments	20.3	21.1	(0.8)
Prepaid Pension Expense	3.5	11.5	(8.0)
Total Assets	122.9	125.1	(2.2)
Accounts Payable, Accrued Liabilities and Accrued Interest	19.4	19.3	0.1
Debt	33.5	45.1	(11.6)
Accrual for Employee Future Benefits other than Pension	56.0	54.9	1.1
Total Liabilities	108.9	119.3	(10.4)
Accumulated Operating Surplus	13.1	5.0	8.1
Accumulated Market-related Penalties and Fines	0.9	0.8	0.1
Total Liabilities and Surplus	122.9	125.1	(2.2)

Accounts Receivable and Short-term Prepaid Expenses

Accounts receivable and short-term prepaid expenses are projected to be \$18.7 million at the end of 2010, \$2.1 million above budget. This variance is primarily due to the increased projection in 2010 revenues.

Total Property and Equipment

Total property and equipment at the end of 2010 is projected to be \$78.4 million, \$4.0 million above budget. This variance is mainly due to 2010 amortization expense which is projected to be \$7.0 million below budget, offset by projected lower capital spending in the year (\$3.1 million below budget).

Prepaid Pension Expense

Prepaid pension expense at the end of 2010 is projected to be \$3.5 million, or \$8.0 million lower than budget of \$11.5 million. This variance is due to the lower than planned pension contributions in the year (\$5.1 million), resulting from improvement in the funded position of the plan at the end of 2009. In addition, the 2010 pension expense is projected to be approximately \$2.9 million higher than budget. This reflects a decrease in the discount rate (determined by reference to high quality long-term corporate bonds). The actual discount rate utilized in calculating the 2010 pension expense was 5.8%, as compared to 6.4% assumed in the 2010 – 2012 Business Plan.

Debt

Total debt is projected to be \$11.6 million less than budget, largely due to the reduced level of pension contributions and capital spending in the year.

2010 Capital Expenditures

For 2010, the IESO forecasts that expenditures on capital initiatives will total \$18.5 million, an amount that is approximately \$3.1 million below the approved budget. As outlined in the following table, this is primarily due to a \$1.0 million variance relating to both the Enhanced Day-Ahead Commitment project and the On-line Limit Derivation project.

(\$ millions)	2010 Projected	2010 Budget	Projected Variance
Enhanced Day-Ahead Commitment	12.5	13.5	(1.0)
On-Line Limit Derivation	0.3	1.3	(1.0)
Enrolment Automation Project	0.5	0.6	(0.1)
Outage Management Replacement	0.1	0.1	-
NERC Standards Compliance Monitoring Tool	0.3	0.1	0.2
Enhanced Forecasting for GEA Initiatives	-	0.3	(0.3)
Other Capital Initiatives	4.8	5.7	(0.9)
Total Capital	18.5	21.6	(3.1)

Given the ongoing need for reprioritization of capital projects, the IESO does not use the business planning process as a mechanism for capital project approval. Rather, through business planning, an appropriate capital envelope is established for future years and each individual project is approved by the appropriate level of IESO management. The following section outlines the variances between the business plan capital project assumptions and projected capital expenditures.

2010 Capital Initiatives

Enhanced Day-Ahead Commitment

The IESO Board of Directors approved management's recommendation to proceed with the enhanced day-ahead commitment processes (EDAC) in September 2008. Capital work began in the first half of 2009, with the IESO working with stakeholders to finalize the process details based on a market design that was finalized in February 2009.

The spending variance of \$1.0 million is a result of funds initially earmarked for 2010, being spent in 2011. This change does not affect overall budget. The current project schedule shows

market trials commencing in mid 2011. The total approved capital spend remains unchanged at \$26.5 million with expenditures of \$4.1 million, \$12.5 million and \$9.9 million projected in 2009, 2010 and 2011 respectively.

The project is expected to deliver:

- Improved efficiency of unit commitment to reduce the overall cost of supplying market demand;
- Improved operational signals to generators, which, among other things, should result in improved coordination of gas and electricity markets; and
- Support for the anticipated changes in Ontario's electricity sector without inhibiting future market evolution initiatives.

On-Line Limit Derivation

The On-Line Limit Derivation project will be undertaken in several stages over the business planning period for a total projected capital cost of \$3.0 million. The project will mitigate identified risks in the Resource Integration and Operations business units, and essentially replaces much of the manual development of system operating limits with automated tools. This project will acquire or develop the tools to facilitate on-line limit derivation in both the on-shift and back office environments. The new systems will be fully integrated into the existing suite of tools.

The 2010 projected variance reflects a shift in timing of costs to future years.

Enrolment Automation Project

The Enrolment Automation Project is comprised of three separate projects which will improve how the IESO manages customer information: Customer Information and Data Efficiency; Registration Automation; and Grid Assessments Automation. The first project will develop a new Customer Data Management System (CDMS) that will immediately replace some of the end user built data repositories and eventually replace the existing Participant Lifecycle (PLC) system. The PLC system is the primary repository of market participant data at the IESO used for providing data critical to market systems. The remaining two projects will address the

handling of customer process information currently stored in other IESO registration databases; as well, it will move business processes to a central web interface thereby allowing IESO staff and customers to better manage customer information.

The 2010 projected variance reflects a shift in timing on project delivery to 2011.

Outage Management Replacement

The Outage Management Replacement project will enable market participants to submit and review their outage information via the IESO portal. This functionality will reduce IESO effort to process outages for market participants that do not use the automated interface.

NERC Standards Compliance Monitoring Tool

The NERC Standards Compliance Monitoring Tool is required to ensure that compliance with NERC reliability standards is monitored, auditable and effective. This tool is needed in advance of the associated NERC audit in 2011. The expected cost of the tool is \$0.3 million in 2010.

Enhanced Forecasting for Green Energy and Green Economy Act (GEGEA) Initiatives

This project will commence in 2011 and will become part of a new consolidated project entitled Renewables Integration.

Financial Outlook 2011 - 2013

Total Costs: 2010-2013

(\$ millions)	2010 Projected	2011 Budget	2012 Plan	2013 Plan
OM&A Program Costs	89.9	96.3	98.0	98.9
OM&A Pension Costs	14.8	16.7	15.9	17.0
Amortization	14.0	14.3	18.7	21.8
Net Interest	0.7	1.0	1.9	1.8
Total Costs	119.4	128.3	134.5	139.5

OM&A Program Costs

(\$ millions)	2010 Projected	2011 Budget	2012 Plan	2013 Plan
Staff Costs	62.4	66.2	68.2	68.8
Computer Support, Maintenance & Equipment	8.8	9.8	9.9	10.1
Contract Services & Consultants	7.9	9.0	8.6	8.5
Administration	7.5	7.9	7.8	7.9
Telecommunications	3.3	3.4	3.5	3.6
OM&A Program Costs	89.9	96.3	98.0	98.9

In 2011, OM&A program costs are budgeted to increase by \$6.4 million from the 2010 projected level. This is largely a result of increasing staff costs as well as increases to contract services and consultants. Increases to program costs in 2012 and 2013 are largely a result of inflation.

Staff Costs

The IESO continues to be a staff-intensive business. Over the three year planning period, staff costs represent approximately 50% of the total costs and almost 70% of the total OM&A program costs. This excludes OM&A pension expense, which although categorized separately, nonetheless relates to regular staff. Factoring in the pension expense and staff-related costs, account for slightly more than 60% of total costs in each year of the planning period.

IESO budgeted staff levels will increase beginning in 2011 in line with expected workload. The key areas of focus include support of renewable integration, compliance activities and project effort required in advance of capital work.

Computer Support, Maintenance & Equipment

Computer support, maintenance and equipment costs are projected to increase in 2011 by \$1.0 million from the 2010 projected costs and to continue increasing slightly over the planning period. The increase in 2011 largely reflects the assumption that the IESO will require increased vendor support of ongoing systems; therefore, the IESO will likely be unable to sustain the savings achieved in 2010 through the allocation of support and maintenance resources to

capital. Also, US dollar contracts are at \$0.90 Canadian dollar to US dollar exchange rate whereas much of the 2010 expenses were at or near parity. Computer support, maintenance and equipment costs include increasing annual support and maintenance fees for market and operating systems, annual license renewals, as well as computer leases and consumables.

Contract Services & Consultants

Contract service and consultant costs are projected to vary in each of the planning years due mainly to different audits and reviews planned over the period. The majority of these costs are recurring annual expenses such as insurance, Board, Panel and Committee member remuneration, audit and accounting fees, legal services, human resource services, communication products & services, government relations functions and OEB fees.

Administration³

Membership costs are budgeted to increase in 2011 by \$0.3 million and to remain relatively flat thereafter. The increase is primarily due to higher NERC/NPCC membership fees, which have risen significantly over the last number of year. Specifically, the NERC/NPCC membership fees have increased from \$2.3 million in 2008 to a projected cost of \$3.6 million, representing an increase of \$1.3 million, or almost sixty percent.

All other administration costs are expected to remain relatively flat.

Telecommunications

Telecommunication costs are budgeted to increase slightly over the planning period due to anticipated inflationary increases.

OM&A Pension Expense

Pension expense represents the actuarially estimated cost of providing pension benefits to IESO employees, using cost calculation methods that are prescribed by the Canadian Institute of Chartered Accountants (CICA) and assumptions that reflect current long-term bond yields and

³ Administrative expenses include memberships, rent, utilities, materials and supplies, rental facilities, building services, and property taxes.

management's best estimates for the future. This expense reflects the proper charge for pensions in the financial statements, in accordance with Canadian Generally Accepted Accounting Principles (GAAP). Three factors that have a large influence on this expense are:

- the institutional arrangements in place;
- pension plan investment performance, and
- critical assumptions used.

Institutional arrangements

In terms of institutional arrangements, the IESO has its own pension plan. Therefore, the pension expense charged through the usage fee is directly impacted by many variables, including fund performance and interest rate assumptions. Some organizations are part of a larger pension plan and their pension expense represents their required contributions to that plan. Those contribution levels are impacted by plan performance and changes to assumptions; however, the rate of change in annual pension expense is likely to be less volatile than that of an individual plan sponsor, like the IESO.

Pension plan investment performance

With respect to pension plan investment performance, over the period 2002 through 2009, the plan earned an average annual return of 3.7%. These returns have not met management's annual long-term assumed rate of return of 6.5%.

In recognition of the long-term nature of the obligations and the desire for a 'smoother' pension expense such that large fluctuations in the usage fee are mitigated, the IESO uses a smoothed value of assets in calculating the pension expense.

Critical assumptions

The assumed long-term rate of return on plan assets is 6.5% per annum.

Pension liability – The pension liability represents the actuarially estimated, present value liability of the pension promises accrued to date for IESO employees and retirees. This estimate is impacted by factors including:

- Pension plan benefit provisions;
- Long-term interest rates;
- Plan membership;
- Mortality assumptions; and
- Other demographic and economic assumptions and experience.

The pension expenses are not the result of new or additional employee benefit levels. Increased benefit levels have not occurred in the past few years. In fact, changes have been made to reduce employer-paid pension benefits.

Long-term interest rates—since this is a long-term obligation, there is an assumption made as to the interest rate that will be used to present-value the obligation. That interest rate is referred to as the “discount rate”. The IESO is required to adopt Public Sector Accounting Standards in 2011. Accordingly, the discount rate assumption will represent management’s best estimate of the expected long term return on plan assets (6.5% for 2011). Under prior accounting rules, the IESO had to use a discount rate that was based on the current market value of high quality corporate bond yields. For reference, IESO utilised discount rates of 6.1% and 5.8% in 2009 and 2010.

Measurement date — the measurement date is September 30. For planning purposes, the discount rate in effect at the beginning of the planning process is used, and is then, subject to materiality considerations, revised on the measurement date.

Legislative requirement – there is a legislative requirement of all pension plan sponsors to undertake a complete actuarial valuation of the plan at least every three years. This valuation

helps ensure appropriate funding of the pension promise. In 2008, the IESO undertook an actuarial valuation; that valuation allowed the IESO to true-up the plan's demographics to that assumed by the actuaries between valuations. There will be no further true-ups until the next valuation date which is scheduled for 2011.

The following table summarizes the details of the change in projected pension expense in 2011 from 2010.

(\$ millions)	Current Service Costs	Interest on Benefit Obligation	Expected Return on Assets	Amortization of Experience	Total
Projected 2010 Pension Costs	8.3	23.0	(20.6)	5.0	15.7
Expected Developments	0.5	0.6	(0.2)	0.6	1.5
Change in Discount Rate	0.5	(0.4)	-	1.9	2.0
Projected 2011 Pension Costs (CICA)	9.3	23.2	(20.8)	7.5	19.2
<u>Transition to PSAB</u>					
Change in Discount Rate	(1.2)	0.7	-	(5.0)	(5.5)
Change in Expected Return on Assets	-	-	0.7	-	0.7
Change in Amortization Method	-	-	-	(0.9)	(0.9)
Budgeted 2011 Pension Costs (PSAB)	8.1	23.9	(20.1)	1.6	13.5
Unamortized Actuarial Losses	-	-	-	5.1	18.6

In addition to the \$13.5 million shown above, the IESO will have a pension expense of \$5.1 million for unamortized actuarial losses in 2011. At transition to Public Sector Accounting on January 1, 2011 the IESO projects to have \$56.1 million in unamortized actuarial losses which will be transferred into an accumulated deficit account. Under past accounting standards, this amount would have been amortized over the estimated average remaining service life (EARS�)

of employees (11 years) and included in the IESO's pension expense. The IESO is proposing to continue this practice.

For 2012 and 2013, the pension expense is expected to increase to \$15.9 million and \$17.0 million respectively due to expected increases in current service and interest costs, partially offset by expected higher returns on plan assets.

Capital Spending

Over the planning period, the IESO intends to make business and tool improvements estimated to total:

- \$21.5 million in 2011;
- \$18.7 million in 2012; and
- \$18.6 million in 2013

While the IESO has provided the details of its capital plan, the IESO must retain flexibility in its capital planning. Therefore, while stakeholders should expect much of the identified 2011 capital plan to be delivered in 2011, there will likely be some changes to the capital plan throughout the year.

The IESO believes this is a prudent and reasonable manner for budgeting its capital expenditures. Throughout the planning period, based on shifting priorities, opportunities, and challenges, the actual plan may differ from that outlined in the current business plan. Within the IESO, all capital project expenditures require Business Unit Leader, President and CEO, or Board of Directors approval as appropriate.⁴

⁴ Business Unit Leaders can approve capital projects up to \$0.5 million, President & CEO can approve capital projects up to \$4.0 million, and the Board of Directors approves all capital projects in excess of \$4.0 million.

Asset Service Lives

As part of the business planning process, the service lives used in the amortization of capital assets are reviewed. The IESO reviews existing assets against the proposed capital plan and also reviews service life changes that are needed during the year. This is done to determine if there is a need to reduce existing service lives because of early replacement or to determine if there is a need to increase or extend asset lives, due to prudent asset management.

The following table outlines the amortization expense over the planning period:

(\$ millions)	2010 Projected	2011 Budget	2012 Plan	2013 Plan
Existing Assets In-Service	21.2	13.7	4.8	3.4
Service Life Changes (2010)	(7.2)	(1.7)	3.4	3.2
New Capital	-	2.3	10.5	15.2
Total Amortization	14.0	14.3	18.7	21.8

Net Interest Expense

The interest expense over the planning period is largely based on the financing strategy outlined below.

Financing Strategy

In April 2009, the IESO executed a second amending agreement to re-finance the note payable with the Ontario Electricity Financial Corporation (OEFC) in the principal amount of \$78.2 million, repayable in full by May 1, 2011. The note payable to OEFC is unsecured, bears interest at a per annum rate equal to the yield earned on ninety-day Province of Ontario treasury bills on the quarterly reset date plus 25 basis points.

On April 30, 2010, the existing corporate credit facility with a Canadian chartered bank expired and the IESO entered into a credit facility with the OEFC. Under the terms of the new unsecured credit facility, OEFC will make available to the IESO an amount of up to \$60.0 million. This credit facility expires on April 30, 2013. The facility bears interest at a per annum rate equal to the Province of Ontario's cost of borrowing for a 30 day term plus 25 basis points per annum.

The assumed average interest rate on the total debt is 2.78%, 3.7%, and 3.7% for 2011, 2012 and 2013 respectively.

The IESO maintains two separate credit facilities: the \$60.0 million corporate credit facility mentioned above and a \$100.0 million facility for market settlement needs. The costs of these lines of credits; aside from any interest on drawn amounts, has historically included extension fees and standby fees. The OEFC credit facility includes no extension or standby fees. The \$100.0 million market settlement facility, with a Canadian chartered bank, continues to include these charges and they are estimated to total approximately \$0.5 million in each of the planning years.

The outlooks over the planning period assume the existing debt/facilities are renewed with existing terms.

For each large and enduring project, interest is capitalized on funds expended before the project is placed in-service. The estimated capitalized interest is \$0.5 million in 2011 for EDAC and \$0.1 million per year thereafter.

**Methodology for Calculating the 2011 Usage Fee and
Proposal for Treatment of Accumulated Surplus**

Year 2011 Regulatory Approvals – IESO Usage Fee

This document explains how the IESO calculated the proposed 2011 usage fee and it forecasts the usage fee for 2012 and 2013. It also explains how the IESO proposes to treat the accumulated surplus.

Revenue Sources

There are two sources of revenue for 2011:

- Cost recovery for services
- Revenue from IESO fees

Cost Recovery for Services

The IESO will continue in its plan to recover the cost of services that are directly attributed to a participant, such as training, assessments, and services to the Ontario Power Authority on a cost recovery basis. The estimated total revenues from cost recovery in 2011 are \$2.9 million.

Revenue from IESO Fees

The OEB approved the IESO's fee methodology in 2000. The fee structure, which has been in effect since market opening, includes an application fee of \$1,000 per application, plus a \$/MWh usage fee. The revenue from application fees is expected to be negligible in 2011.

Usage Fee

This section explains how the proposed usage fee for the year 2011 is derived and it provides a projection of the anticipated usage fees for 2012 and 2013.

There are three basic steps to calculating the usage fee:

The first step is to calculate the revenues required.

Revenue Requirement Calculation for IESO Usage Fee			
(\$ millions)	2011	2012	2013
Total Costs	128.3	134.5	139.5
Plus: Projected surplus/(deficit) for rate stabilization	0.6	(4.8)	(9.6)
Overall Revenue Requirement	128.9	129.7	129.9
Less: Other Revenues			
• Cost recovery for services	2.9	2.8	2.8
• Market-related interest income	-	2.8	2.6
Revenue Requirement to be recovered by IESO Usage Fee	126.0	124.1	124.5

The second step is to estimate the charge determinant for the usage fee. The charge determinant is the total forecast AQEW (Allocated Quantity of Energy Withdrawn) and SQEW (Scheduled Quantity of Energy Withdrawn (i.e. exports) in TWh :

Year	18-Month Outlook Demand Forecast (TWh)	-	Transmission Line Losses (TWh)	+	Exports (TWh)	=	Market Demand (TWh)
2011	143.6	-	3.2	+	12.9	=	153.3
2012	140.4	-	3.1	+	10.8	=	148.1
2013	138.7	-	3.1	+	10.0	=	145.6

The third step is the rate calculation:

Year	Revenue Requirement To Be Recovered (\$ million)	÷	Market Demand (TWh)	=	Usage Fee (\$/MWh)
2011	126.0	÷	153.3	=	0.822
2012	124.1	÷	148.1	=	0.838
2013	124.5	÷	145.6	=	0.855

Implementation of 2011 usage fee

The requested usage fee for 2011 represents no change from the approved 2010 usage fee.

Pending approval by the OEB of the 2011 usage fee, the 2010 usage fee will continue to be charged to market participants. Upon approval of the 2011 usage fee, the IESO will implement adjustments, if required, to market participants' monthly invoices.

Utilization of Deferral Account Balance

The IESO projects a surplus for 2010 of \$8.1 million which, when added to the \$5.0 million surplus in the IESO's deferral account, would result in an accumulated surplus of \$13.1 million to the end of 2010. The IESO proposes that this accumulated surplus be retained in order to maintain rate stabilization over the planning period (2011-13).

The IESO is forecasting decreasing energy demand over the planning period. Also, due to other factors — economic conditions, conservation initiatives, increases in embedded renewable generation, etc. — there is a higher than normal risk that energy volumes will be lower than forecast. This, coupled with some increases in costs to implement the province's green energy policy, will put upwards pressure on the IESO's usage fee. Therefore, in order to stabilize rates and moderate any increases in the IESO's usage fee, the IESO proposes that the accumulated surplus be retained so that it may be applied to contingencies and future revenue requirements over the planning period.

Status of Enhanced Day-Ahead Commitment Project

This document briefly summarizes the background leading to the adoption of the Enhanced Day-Ahead Commitment (EDAC) project, the current status of the project and the approved course of action for moving forward.

IESO Stakeholder Engagement of Day-Ahead Mechanisms and Approval of EDAC

In September 2006 the IESO initiated Stakeholder Engagement Plan (SE-21) to explore and understand stakeholders' interests and priorities in evolving the electricity market as it relates to day-ahead mechanisms. Through this engagement, the IESO and stakeholders considered a number of options for day-ahead mechanisms and the IESO undertook a detailed cost-benefit analysis of these options. The selected option, EDAC, was approved by the IESO Board on September 5, 2008. In making its decision, the Board considered stakeholder feedback and advice from the Stakeholder Advisory Committee.

This EDAC project incorporates 24-hour optimized unit commitment, inclusion of exports, three-part offers, and refined cost guarantees for generators and imports. Background details about the project — e.g., stakeholder processes, day-ahead mechanisms considered, cost benefit analysis undertaken — can be found at: <http://www.ieso.ca/imoweb/edac/edac.asp>

Market Design

The first major effort undertaken by the IESO following IESO Board approval in September 2008 was the development of the EDAC Market Design. The Market Design establishes the processes and outcomes required to implement EDAC. It also provides the foundation for developing market rules and constructing the Detailed Design documentation required for procurement. This process was done in consultation with stakeholders and it resulted in approval of the final EDAC Market Design by the IESO Board on February 4, 2009.

Participants in the stakeholder processes supported the final Market Design document, while emphasizing the need to ensure that the desired outcomes are not compromised as the project is implemented.

Development of Market Rules

Market rules development proceeded in three groups: enabling rules, 'EDAC engine' requirements, and settlement requirements. The first two groups of rules — which provide the necessary grounds to proceed with detailed design of the 'EDAC engine', and the foundation for the orderly development of settlement rules based on a fixed set of 'EDAC engine' requirements and the completed Market Design — were approved by the IESO Board on September 15, 2009. The final group, the settlement rules, were approved on February 11, 2010.

In the spring of 2011, a market rule amendment "true up" will be carried out in consultation with the Technical Panel and shortly thereafter, the IESO Board. These rule changes will entail clarifications and correction of minor errata to the initial rule amendments. In addition, they will include enabling rules for incorporation of combined cycle plant modeling into the EDAC design.

Detailed Design

The Detailed Design phase of the project began in February 2009 and was completed in April 2010. This phase included a stakeholder engagement process (SE-73). This process provided an opportunity for market participants affected by the implementation of EDAC to identify operational and settlement issues and to provide input on developing solutions to address these issues.

Sixteen meetings with stakeholders were held during 2009 and 2010. These meetings resulted in the release of two market facing detailed design documents supported by stakeholders, one for EDAC Operations and one for Settlements. These documents, along with market rule

changes have formed the basis for the system and procedure/market manual updates that are being implemented in the IT Design and Build Phase.

IT Design and Build Phase

The current IT Design and Build Phase commenced in November 2010, and involves the update of systems, interfaces and processes that the IESO will use to carry out day-ahead operations. Major systems are in the process of being delivered and internal IESO testing will commence this fall and continue into the spring of 2011.

In 2010, two stakeholder initiatives were launched: (i) SE-87, to gather input on specific market facing IT changes, and (ii) SE-73, the EDAC Project Advisory Group which will provide input to the IESO on business aspects of implementation such as changes to market manuals, training needs and the structure of Market Trials and which will also support the Technical Panel on true-ups to the EDAC market rule amendments. The SE-87 stakeholder group has met three times since February 2010 and the SE-73 Advisory Group has met four times since June 2010.

Project Schedule and Cost

The EDAC Project remains on schedule and on budget.

The project schedule continues to call for market trials to commence in mid 2011. The total approved capital remains unchanged at \$26.5 million with projected expenditures of \$12.5 million and \$9.9 million in 2010 and 2011 respectively. The current design is expected to achieve the benefits identified in the original cost/benefit analysis.

Project costs and the timing remain subject to some variability depending on the amount of testing required by market participants during market trials. This matter is currently under discussion with stakeholders as part of the SE-73 Project Advisory Group process.

Status of Undertakings

2010 Fees Case Undertakings

In its 2010 fees case, the IESO undertook to update OEB staff and intervenors on the status of Market Rule amendments being developed to address congestion management settlement (CMSC) payments. In accordance with this undertaking, the IESO has provided regular updates on the development of these Market Rule amendments. Attached hereto as Schedule "A" are copies of letters the IESO has delivered to the Board and intervenors addressing this matter.

Past Undertakings

As part of a Board-approved settlement agreement in the IESO's 2006 fees case (EB-2005-0499), the IESO agreed to track and report costs consistent with FERC Order No. 668 costs categories and to include in its 2007 fees case such comparative information as was available at that time. In its 2007 fees case, the IESO complied with this undertaking by filing such comparative information as was available at that time. In its 2008 fees case (when for the first time the IESO had a full year of cost data from other ISOs), the IESO provided a full year of comparative cost data and an analysis.

Since the IESO's 2006 fees case, the IESO has been tracking and issuing quarterly reports on costs consistent with FERC Order No. 668. As part of the IESO's efforts to increase efficiency, the IESO will be discontinuing this report.

Schedule "A"



May 20, 2010

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
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Independent Electricity
System Operator
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Dear Ms. Walli:

Re: IESO 2010 Fees Case – EB-2009-0377 – Update on MR-00370

In accordance with Settlement Proposal filed with the Board on March 2, 2010, the IESO is writing to update the Board and Intervenor on the status of the market rule amendment (MR-00370) being developed to address the Market Surveillance Panel's ("MSP") January 2010 recommendations relating to CMSC payments to exporters and dispatchable loads

- The IESO is currently on track to meet the timeline identified in the IESO's submission to the Board dated March 26, 2010 under EB-2009-0377.
- The efficiency analysis which was being conducted by the IESO to determine the appropriate bid floor for constrained-on payments to exporters and dispatchable loads was presented to the IESO's Technical Panel ("TP") on May 11, 2010 as part of the TP's review of the associated market rule amendment submission. The TP had a few questions of clarification regarding the efficiency analysis but unanimously determined that the issue warranted consideration and assigned a high priority to developing the proposed amendment.
- The IESO expects to bring the formal amendment proposal to the June 8, 2010 TP meeting and seek TP concurrence to post the draft amendment for three weeks for stakeholder review and comment.
- At the August 17 TP meeting, the IESO plans to ask the TP to review any stakeholder comments, and consider any changes to the amendment that the IESO may propose in response to stakeholder comments. Unless the nature and extent of stakeholder comments and proposed changes warrant further consideration, the IESO expects to seek TP approval on the amendment proposal at that meeting.

- The IESO's target date for IESO Board approval of the rule amendments remains September 10, 2010.
- Materials relating to this market rule amendment (MR-00370) are posted on the IESO's website at: www.ieso.ca/imoweb/amendments/mr_Amendments.asp.

With regards to MR-00252 (the proposed market rule amendment to limit self-induced CMSC payments to generators when they are unable to follow dispatch for safety, legal, regulatory or environmental reasons), the IESO is planning to present the proposed rule amendment to the TP for approval at its meeting on June 8 or July 6, 2010 and to the IESO Board for approval on September 10, 2010.

The IESO will provide a further update following the June 8, 2010 TP meeting.

Please do not hesitate to contact me should you require further clarification.

Respectfully Submitted,

/s/Brian Rivard

Brian Rivard

Manager, Regulatory Affairs & Sector Policy Analysis

Independent Electricity System Operator

655 Bay Street, Suite 410

Toronto, ON, M5G 2K4

June 09, 2010

Ms. Kirsten Walli
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- The IESO is currently on track to meet the timeline identified in the IESO's submission to the Board dated March 26, 2010 under EB-2009-0377.
- The IESO had originally planned to seek the Panel's recommendation to post the amendment proposal for stakeholder comments at the Panel meeting on June 8th. That decision has been deferred until the July 6th Technical Panel meeting so that the IESO can complete additional analysis to address comments received at the June 2nd Inter-Jurisdictional Trading Standing Committee meeting.
- At the August 17 TP meeting, the IESO still expects to ask the TP to review any stakeholder comments, and consider any changes to the amendment that the IESO may propose in response to stakeholder comments. Unless the nature and extent of stakeholder comments and proposed changes warrant further consideration, the IESO expects to seek TP approval on the amendment proposal at that meeting.
- The IESO's target date for IESO Board approval of the rule amendments remains September 10, 2010.
- Materials relating to this market rule amendment (MR-00370) are posted on the IESO's website at: www.ieso.ca/imoweb/amendments/mr_Amendments.asp.

With regards to MR-00252 (the proposed market rule amendment to limit self-induced CMSC payments to generators when they are unable to follow dispatch for safety, legal, regulatory or

environmental reasons), the IESO has scheduled a consultation session with generators on June 23rd to discuss the IESO's recommendations. The IESO expects to present the proposed rule amendment to the Technical Panel for review at its meeting on July 6, 2010. It's expected that the rule amendment would be posted for stakeholder comment in August or September at which time the TP would be asked to recommend the proposal for IESO Board approval on November 11, 2010.

The IESO will provide a further update following the July 6, 2010 TP meeting.

Please do not hesitate to contact me should you require further clarification.

Respectfully Submitted,

/s/Brian Rivard

Brian Rivard

Manager, Regulatory Affairs & Sector Policy Analysis

Independent Electricity System Operator

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October 05, 2010

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Dear Ms. Walli:

Re: IESO 2010 Fees Case – EB-2009-0377 – Update on MR-00370

In accordance with the Settlement Proposal filed with the Board on March 2, 2010, the IESO is writing to update the Board and Intervenors on the status of the market rule amendment (MR-00370) being developed to address the Market Surveillance Panel's ("MSP") January 2010 recommendations relating to CMSC payments to exporters and dispatchable loads.

- The IESO is currently on track to meet the timeline identified in the IESO's submission to the Board dated March 26, 2010 under EB-2009-0377.
- The draft amendment proposal was posted for comment from July 8 – 29, 2010. In response to stakeholder comments, the IESO made several revisions to the proposal and solicited Technical Panel feedback on the changes at the August 17 Technical Panel meeting. The Technical Panel did not identify any significant concerns with the revised proposal. At the subsequent September 14 Technical Panel meeting, the Technical Panel voted to approve and forward the proposed rule amendment to the IESO Board for final approval.
- The IESO's target date for IESO Board approval of the rule amendment is November 11, 2010.
- Materials relating to this market rule amendment (MR-00370) are posted on the IESO's website at: www.ieso.ca/imoweb/amendments/mr_Amendments.asp.

With regards to MR-00252 (the proposed market rule amendment to limit CMSC to generators during ramp down), the IESO consulted with generators on July 23 to solicit feedback on the IESO's proposed amendments. The generators expressed two major concerns regarding the IESO's proposal:

- Further analysis is required to assess the efficiency and price impacts of the proposed amendment; and
- Further analysis is required to assess the impact of the proposed changes on OPA contracts. In this regard, the IESO needs to consult with the OPA and share the OPA's feedback with the generator community.

In light of the issues raised by generators at the July 23 stakeholder session, the IESO is revising its plan for stakeholder consultation on this amendment. As a first step, the IESO has initiated consultation with the OPA on the impact of the proposed changes on OPA contracts. Once the IESO has completed this consultation, the IESO will determine what, if any, further stakeholdering is required with generators or other market participants and what further rule amendments may be required. At that time, the IESO will establish a revised stakeholdering timetable and target date for IESO board approval of the market rule amendment. The IESO will notify the Board and intervenors once this new timetable is established.

In order to expedite implementation of this rule amendment once stakeholdering is completed and the associated amendments are approved by the IESO board and subsequently, the OEB, the IESO has prioritized its IT implementation plan to implement the changes as quickly as possible.

At the same time that the IESO has been working towards addressing issues related to MR-00252, the IESO successfully addressed an emergent issue related to payment of CMSC payments to constrained-off dispatchable loads, under MR-00373. The IESO passed an urgent rule amendment to address this issue. This urgent rule amendment went into effect on Aug 28 and it temporarily suspends all constrained-off CMSC payments to dispatchable loads while the IESO works with the dispatchable load community to replace this interim amendment with a permanent solution.

Please do not hesitate to contact me should you require further clarification.

Respectfully Submitted,

/s/Brian Rivard

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