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May 22, 2012

BY E-MAIL AND WEB POSTING

Mr. Paul Murphy
President and Chief Executive Officer
Independent Electricity System Operator
655 Bay Street, Suite 410
Toronto, ON M5G 2K4

Dear Mr. Murphy:

RE: Market Surveillance Panel Monitoring Report

The Market Surveillance Panel ("MSP") has delivered to me its *Monitoring Report on the IESO-Administered Electricity Markets* for the period from May 2011 – October 2011 (the "MSP Report"). I attach a copy of the MSP Report for your reference.

The MSP Report sets out six recommendations, five of which are directed to the Independent Electricity System Operator (the "IESO"). The five recommendations to the IESO, which the MSP believes will enhance market efficiency and help to reduce uplift and other payments, are as follows (listed in the order of priority identified in the MSP Report for each of the two categories):

Recommendations related to efficiency

- The IESO should proceed with development work on those recommendations of the Electricity Market Forum that are directed at improving market efficiency, including the consideration of options to replace the two-schedule structure of the current market design
- The IESO should continue to pursue the introduction by the Northeast Power Coordinating Council of a revised regional reserve sharing program and the negotiation of any necessary implementing agreements with neighboring ISOs as expeditiously as possible

Recommendations related to uplift and other payments

- The IESO should improve its internal controls and external processes to ensure that all information about outages and other relevant contingencies is taken into account when establishing the level of transmission rights to be auctioned
- The IESO should implement a permanent, rule-based solution to eliminate self-induced CMSC payments to ramping down generators
- The IESO should ensure that, when a trader which owns transmission rights has failed its intertie transactions (at the same interface in the same direction), either the transmission rights payout not be paid or the congestion rent should be charged for the quantity of the failed transaction.

I understand that implementation of the above recommendations may ultimately fall to a successor organization in the event that Bill 75 were to be passed. Nonetheless, I would hope that you can provide me with the IESO's current position in relation to the above recommendations as you would in the normal course. I would therefore appreciate if you would advise me in writing within 30 days of: a) the steps that the IESO currently plans to take in response to the above recommendations and the timelines for completion of those steps; and b) whether, in the IESO's view, any actions or market rule amendments, in addition to those reflected in the MSP's recommendations, should be taken or initiated.

I would also appreciate if you would include in your response an update on the status of actions taken by the IESO in response to the recommendations set out in the MSP's previous monitoring report.

Please do not hesitate to contact me should you have any questions or wish to discuss the above.

Yours sincerely,



Rosemarie T. Leclair
Chair & CEO

cc: Neil Campbell, Chair, Market Surveillance Panel