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January 14, 2013

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 November 2011 – April 2012 (the "MSP Report"). I attach a copy of the MSP Report for your reference.

The MSP Report sets out five recommendations, all of which pertain to the transmission rights ("TR") market and are directed to the Independent Electricity System Operator (the "IESO"). The five recommendations, which the MSP believes will enhance market efficiency and help to reduce uplift and other payments, are as follows (listed in the order in which they appear in the MSP Report):

Recommendation related to efficiency

- The IESO should reassess the design of the Ontario TR market to determine whether it is achieving its intended purpose.

Recommendations related to uplift and other payments

- The IESO should limit the number of TRs auctioned to a level where the congestion rent collected is approximately sufficient to cover the payouts to TR holders.
- (A) The IESO Board of Directors should authorize the disbursement of the portion of the TR Clearing Account balance that currently exceeds the Reserve Threshold to reduce the transmission charges payable by loads.

(B) In the future, the IESO Board of Directors should authorize disbursements of TR Clearing Account balances in excess of the Reserve Threshold after each year end.

- The IESO policy of selling only long-term TRs on single-circuit interfaces should be replaced by a policy of reserving a significant portion of the available TRs for sale at short-term TR auctions.
- As part of the IESO's planned review of the Enhanced Day-Ahead Commitment Process, the Panel recommends that the IESO examine the interplay between the day-ahead intertie offer guarantee program and the TR market.

I would appreciate if you would advise me in writing within 30 days of: a) the steps that the IESO 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 further to the recommendations set out in the MSP's previous monitoring report, relative to the IESO's responses that are set out in Table 4-1 of the MSP Report.

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

Yours truly,



Rosemarie Leclair
Chair, Ontario Energy Board

cc Bill Rupert, Acting Chair, Market Surveillance Panel