



## **AN OVERVIEW OF ONTARIO'S NEW ENERGY MARKET**

**DAVE GOULDING  
PRESIDENT AND CEO  
INDEPENDENT ELECTRICITY MARKET OPERATOR**

**PRESENTED TO ENERCOM  
MARCH 4, 2003**

---

### *INTRODUCTION*

LET ME START BY SAYING HOW PLEASED I AM TO BE AT THE CONFERENCE AND, IN PARTICULAR ON THIS PANEL TO TALK ABOUT ONTARIO'S ENERGY MARKET FROM THE IMO PERSPECTIVE.

IN MY REMARKS, I AM GOING TO FOCUS ON THE IMO-ADMINISTERED WHOLESALE MARKET AND LEAVE THE RETAIL SIDE TO PAUL.

I WANT TO LOOK BACK OVER THE PAST TEN MONTHS SINCE OPENING THE MARKET AND TALK ABOUT WHAT WENT RIGHT... AND THERE WAS A LOT THAT WENT RIGHT.

I ALSO WANT TO TOUCH ON THE EVENTS OF NOVEMBER 11TH AND BRING YOU UP TO DATE ON WHAT THE IMO HAS BEEN DOING SINCE BILL 210 WAS PASSED.

FINALLY, I WANT TO LOOK AHEAD TO THE FUTURE FROM A RELIABILITY POINT OF VIEW WHICH IS THE IMO'S MAIN CONCERN AND WHAT WE NEED TO DO TO HELP FACILITATE THE MOVE TO A FULLY-SUSTAINABLE MARKET- BASED ENVIRONMENT.

## *OPENING THE MARKET*

FIRST OF ALL, LET ME LOOK BACK AT THE OPENING OF THE MARKET.

ON MAY 1, 2002 WE SUCCESSFULLY OPENED THE MARKETPLACE TO COMPETITION. IT WAS ABSOLUTELY THE RIGHT THING TO DO TO OPEN THE MARKETPLACE. IT HAS BEEN A SUCCESS.

AS WE MADE CLEAR IN OUR SUBMISSION TO THE PROVINCIAL GOVERNMENT EARLIER THIS YEAR, THE PRICE RESPONSIVENESS OF THE MARKET WAS A KEY FACTOR IN KEEPING THE LIGHTS ON THIS PAST SUMMER. WHILE IT'S HARD TO REMEMBER THE HEAT OF THE PAST SUMMER DURING THIS LONG COLD WINTER, IT'S WORTH NOTING THAT WHEN THE EXTREMELY HOT TEMPERATURES PUSHED DEMAND TO RECORD LEVELS, THE PRICE RESPONSIVENESS OF THE MARKET HELPED PUSH AWAY THE NEED FOR LOAD CUTS.

YES IT WAS CLOSE AND THERE WERE MORE THAN A FEW DAYS WHEN LOAD SHEDDING LOOKED INEVITABLE.

SO IN THE END, ALTHOUGH IMO STAFF, SUPPLIERS AND TRANSMITTERS HAD SOME CHALLENGING DAYS, WE WERE ABLE TO KEEP THE LIGHTS ON. PRIMARILY AS A RESULT OF THE PRACTICES OF LARGE WHOLESALE CUSTOMERS WHO SHIFTED OPERATIONS AND LOAD IN RESPONSE TO HIGHER PRICES, REDUCING DEMAND DURING PEAK DEMANDS, AND OF THE ABILITY OF THE MARKET TO ATTRACT GENERATION FROM OUTSIDE ONTARIO.

SOME LARGE CUSTOMERS INFORMED US OF LOAD SHIFTING TOTALLING IN EXCESS OF 300 MEGAWATTS DURING SOME OF THE HIGH

PRICE TIMES WHICH WERE ALSO THE TIGHTEST SUPPLY/DEMAND TIMES. IN ADDITION, WE WERE ABLE TO ATTRACT RECORD LEVELS OF IMPORTS, MORE THAN 1,000 MEGAWATTS OVER THE PREVIOUS SUMMER – MAXIMIZING THE USE OF INTERCONNECTIONS. IF WE HAD NEEDED MORE AND IF IT WERE AVAILABLE, WE COULDN'T HAVE DELIVERED IT.

WE CALCULATED THAT WITHOUT THE PRICE RESPONSIVENESS OF THE MARKET LAST SUMMER, WE WOULD HAVE ADDED ABOUT 600 MEGAWATTS TO THE LOAD, WHICH LAST SUMMER MIGHT HAVE FORCED LOAD CUTS TO KEEP THE SYSTEM INTACT.

### *BILL 210*

BUT IF THE MARKET WAS SUCH A SUCCESS, THEN WHY DID THE GOVERNMENT EFFECTIVELY TAKE AWAY HALF OF IT WITH THE PASSAGE OF BILL 210 AND A FIXED PRICE FOR THE LOW VOLUME AND OTHER DESIGNATED CUSTOMERS?

CLEARLY THE HIGHER BILLS THAT RESIDENTIAL CONSUMERS WERE FACING PREDOMINANTLY AS A RESULT OF THE HIGH AIR CONDITIONING LOAD WAS THE MAJOR FACTOR IN THE GOVERNMENT DECISION. BUT IT'S ALSO WORTH NOTING THAT FROM MARKET OPENING THE CUMULATIVE AVERAGE SPOT PRICE LAST SUMMER NEVER AVERAGED ABOVE WHAT THE RETAILERS WERE CHARGING FOR A FIXED PRICE AND WHICH ONE MILLION CUSTOMERS HAD AGREED TO PAY.

I HAVE OFTEN SAID THAT ELECTRICITY IS CURRENTLY A VASTLY UNDERVALUED AND WASTED RESOURCE, PERHAPS SURPASSED ONLY BY WATER. WE NEED TO START ASKING THE TRUE VALUE OF THE PRODUCT, WE NEED TO BE PREPARED TO PAY WHAT THE VALUE IS,

AND WE NEED TO STOP TREATING IT AS THOUGH IT WERE AN INEXHAUSTIBLE PRODUCT.

WHILE 4.3 CENTS MAY HAVE BEEN CLOSE TO 'ENERGY AT COST' TEN YEARS AGO, SOMETHING MUCH HIGHER THAN THAT WOULD BE APPROPRIATE TODAY.

BUT CLEARLY THIS WAS NOT SOMETHING THAT THE VAST MAJORITY OF ELECTRICITY CUSTOMERS IN THE PROVINCE COULD UNDERSTAND. NOR COULD THEY UNDERSTAND WHY THE PRICE FOR ELECTRICITY WAS SKYROCKETING FOR BRIEF PERIODS WITH THE HIGH DEMANDS OF THE SUMMER.

THERE WAS A GENERAL FAILURE BY US AND OTHERS IN THE MARKET TO CONVEY TO THE CONSUMER WHY THIS WAS HAPPENING. THIS EDUCATION SHOULD HAVE STARTED WAY BEFORE THE MARKET OPENED, AS SHOULD THE MANAGEMENT OF REALISTIC EXPECTATIONS.

HERE I UNDERSTAND THE POSITION OF MANY OF THE LDCS. AS A BILLING AGENT, YOUR CUSTOMERS THAT WERE NOT SIGNED WITH A RETAILER, WERE FACING FLUCTUATING COMMODITY COSTS THAT YOU HAD TO PASS THROUGH. THAT IS SOMETHING THAT HAS TO BE REVIEWED AS WE RE-INTRODUCE THE RETAIL MARKET.

THE IMO WAS CONCERNED WITH THE WHOLESALE MARKET, WORKING WITH MARKET PARTICIPANTS TO ENSURE THAT THEY HAD THE EDUCATION AND TOOLS TO MAKE THE MARKET WORK FOR THEM. BUT IF THE MARKET IS GOING TO SUCCEED, WE ARE ALL GOING TO HAVE TO COMMUNICATE THE BENEFITS OF A RESTRUCTURED MARKET TO A BROADER RANGE AND TO HELP GET A RECOGNITION OF VALUE AND A CHANGE IN BEHAVIOURS.

SINCE BILL 210 WAS PASSED AND THE REGULATIONS PUT IN FORCE, THE IMO HAS BEEN WORKING WITH THE MINISTRY OF ENERGY AND OTHER MARKET PARTICIPANTS, INCLUDING THE LDCS, TO ARRANGE FOR THE APPROPRIATE TRUE-UPS AND BILLING SETTLEMENTS AS A RESULT OF THE FIXED CHARGE.

IN FACT, IT'S BEEN A BUSY TEN MONTHS FOR OUR SETTLEMENTS GROUP. AT THE END OF JANUARY, THEY PROCESSED THE 100,000TH WHOLESALE SETTLEMENT STATEMENT SINCE THE MARKET OPENING LAST SPRING. AND THEY'VE DONE THE WORK REMARKABLY WELL. TO DATE, THERE HAVE BEEN ONLY SIX SETTLEMENT STATEMENTS THAT WENT TO THE DISPUTE STAGE, AND OF THOSE SIX, FOUR WERE FOUND TO BE ACCURATE FROM THE START.

OUR MARKET ACCOUNTS GROUP HAS ALSO BEEN KEPT BUSY AND UP TO THE CHALLENGE. THEY HAVE PROCESSED THOUSANDS OF INVOICES ALL ON TIME.

WHOLESALE CUSTOMERS HAVE PAID THEIR INVOICES WITHIN THE TWO- DAY WINDOW AND WE HAVE SIMILARLY PAID SUPPLIERS WITHIN THE ALLOWED TWO-DAY WINDOW. FOUR DAYS FROM INVOICE TO PAYMENT – NOT BAD, EH!

#### *MINISTER'S CONSULTATION PROCESS*

THE IMO, ALONG WITH APPROXIMATELY 150 OTHER STAKEHOLDERS, PARTICIPATED IN THE MINISTER OF ENERGY'S CONSULTATION PROGRAM ON THE FUTURE OF THE WHOLESALE MARKET.

WHILE I WOULD ENCOURAGE YOU TO READ OVER THE SUBMISSION, WHICH CAN BE FOUND ON THE IMO WEB SITE, LET ME HIGHLIGHT A FEW OF THE POINTS WE MADE.

AS I MENTIONED EARLIER, WE STRESSED THE IMPORTANCE OF THE PRICE-RESPONSIVE MARKET IN ENSURING RELIABILITY TODAY AND IN THE FUTURE.

ALTHOUGH THE GOVERNMENT'S FIXED PRICE EFFECTIVELY PUT ON HOLD THE RETAIL MARKET UNTIL 2006, THIS ACTION LEAVES US IN A SIMILAR POSITION TO OTHER JURISDICTIONS THAT HAVE INTRODUCED A PRICE RESPONSIVE MARKET. ONTARIO WAS ONE OF THE FEW JURISDICTIONS WHERE COMPETITION WAS INTRODUCED SIMULTANEOUSLY IN BOTH THE WHOLESALE AND RETAIL SECTORS.

OTHER JURISDICTIONS HAVE STARTED SLOWLY, AND AS THE MARKET SUCCEEDED, MARKET PRICING WAS EXTENDED TO SUCCESSIVE LEVELS OF CUSTOMERS, WHO HAD THE EDUCATION AND THE TOOLS TO MAKE THE MARKET WORK FOR THEM.

THE SAME COULD OCCUR IN ONTARIO. I HAVE NOT SEEN THE RESULTS OF THE CONSULTATION BUT SHOULD THE GOVERNMENT DECIDE TO EXTEND A FORM OF FIXED PRICING TO OTHER CUSTOMERS, WE BELIEVE THE PLAN SHOULD INCLUDE A PHASE OUT AS NEW SUPPLY COMES ON-LINE, AND AS THOSE CUSTOMERS ARE ABLE TO PURCHASE ELECTRICITY COMPETITIVELY. WE ALSO NEED AN EXIT STRATEGY FROM THE DECLARATION MADE ON NOVEMBER 11TH.

WE HAVE MADE IT CLEAR THAT WE ARE PREPARED TO WORK WITH THE GOVERNMENT, THE EDA, LDCA AND OTHERS ON TRAINING AND EDUCATION PROGRAMS TO HELP MAKE THE MARKET WORK.

*FUTURE RELIABILITY*

BEFORE I CLOSE I WANT TO TOUCH ON A FAVOURITE SUBJECT OF THE IMO AND THAT IS RELIABILITY.

I AM ENCOURAGED BY THE NEWS OUT OF BRUCE POWER ON THE EXPECTED RETURN TO SERVICE IN THE NEXT FOUR MONTHS OF THE TWO UNITS AT BRUCE A. I AM FURTHER ENCOURAGED BY THE RECENT REMARKS IN THE PRESS FROM GRAHAM BROWN AT OPG ABOUT MEETING THE JUNE 30 TARGET DATE FOR THE RETURN TO SERVICE OF PICKERING UNIT 4. AND WHILE WE'RE ON THE SUBJECT OF GOOD NEWS, I AM PLEASED TO SEE THE FIVE-YEAR LICENCE FOR DARLINGTON RECENTLY ISSUED BY THE CANADIAN NUCLEAR SAFETY COMMISSION.

AND WHILE THESE ACTIONS WOULD HELP TO ADDRESS SOME OF THE IMO SHORT-TERM CONCERNS, IT'S EQUALLY IMPORTANT NOT TO LOSE SIGHT OF THE LONG TERM AND THE DECISIONS AND ACTIONS REQUIRED TO ADDRESS THE LONGER TERM ISSUES.

WE NEED TO BE MINDFUL OF THE FACT THAT WE HAVE OLD EQUIPMENT THAT WILL NEED TO BE REPLACED ... WITH THOSE REPLACEMENT DECISIONS REQUIRED OVER THE NEXT FEW YEARS.

ON THE GENERATION SIDE, THERE IS THE PROJECTED REMOVAL FROM SERVICE OF LAKEVIEW WHEN IT STOPS BURNING COAL ON APRIL 30, 2005. BUT OTHER COAL-FIRED PLANT IS ALSO AGING. LAMBTON WAS BUILT BY 1970 AND WILL BE 40 YEARS OLD AT THE END OF THIS DECADE.

ON THE NUCLEAR SIDE, BOTH PICKERING A AND BRUCE A WERE COMMISSIONED IN THE 70S AND THE FIRST PICKERING B UNIT IS 20 YEARS OLD.

NOW OF COURSE THERE ARE LIES, DAMNED LIES AND FORECASTS BUT I WOULD EXPECT THAT WE ARE LOOKING AT A REQUIREMENT FOR ABOUT 15,000 MW OF NEW GENERATION OVER THE NEXT 15 YEARS. SOME OF COURSE MAY BE REFURBISHED.

WE NEED TO START TO EXAMINE WHAT NEW SUPPLY OPTIONS CAN BE COUNTED ON TO REPLACE AGING PLANT AS IT IS TAKEN OUT OF SERVICE AND WHAT CHANGES, IF ANY, TO THE INFRASTRUCTURE ARE REQUIRED TO MAKE IT HAPPEN. FRANKLY, WHILE GAS AND RENEWABLES CAN AND SHOULD FORM PART OF THE MIX, THEY CANNOT BE THE FULL LONG-TERM SOLUTION.

IT ALSO HIGHLIGHTS THE NEED FOR DEMAND MANAGEMENT INITIATIVES TO BRING OUR LOAD REQUIREMENTS DOWN AND THE NEED FOR USERS TO RECOGNIZE THE TRUE VALUE OF ELECTRICITY AND ADJUST BEHAVIOURS ACCORDINGLY.

MANY OF YOU ARE WELL AWARE OF THE INVESTMENT DECISIONS NEEDED ON YOUR DISTRIBUTION SYSTEMS. THERE ARE ALSO TRANSMISSION DECISIONS TO BE MADE.

THE NEED FOR AN ADDITIONAL THIRD SUPPLY TO DOWNTOWN TORONTO WAS DESCRIBED IN OUR PREVIOUS 10-YEAR ASSESSMENT, WHICH WE RELEASED LAST SPRING.

THE HIGH RATE OF LOAD GROWTH IN MUNICIPALITIES NORTH OF TORONTO HAS ALSO CREATED A NEED TO INCREASE THE SUPPLY CAPABILITY IN THAT AREA.

IF A DECISION IS MADE TO SHUT LAKEVIEW DOWN, A NUMBER OF TRANSMISSION INFRASTRUCTURE ADDITIONS AS WELL AS ADDITIONAL REACTIVE SUPPLY CAPABILITY WILL BE REQUIRED BEFORE THE

SHUTDOWN TAKES PLACE, IN ORDER TO MAINTAIN THE LEVEL OF SYSTEM RELIABILITY WE NEED IN THE GTA.

THESE ARE THE KINDS OF ISSUES WE ARE DEALING WITH AND THESE ARE THE KINDS OF ISSUES THAT WE WILL BE ADDRESSING IN OUR NEXT TEN-YEAR ASSESSMENT, WHICH IS SCHEDULED TO BE RELEASED IN ABOUT A MONTH.

IN CLOSING, LET ME JUST END WHERE I STARTED. I BELIEVE THE MARKET HAS BEEN A SUCCESS AND I BELIEVE IT SHOULD CONTINUE.

WE HAVE MADE TREMENDOUS PROGRESS IN DEVELOPING THE MARKET AND I BELIEVE THAT PROGRESS CAN CONTINUE.

THANKS VERY MUCH. I LOOK FORWARD TO YOUR QUESTIONS.