Notes for Remarks

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Introduction

Congratulations to the conference organizers, due to their efforts, Enercom has once again proven to be a premier energy conference … and I am pleased to be here again to share my perspectives and as always, listen to others.

So as I grind out my messages today you might say "I've heard this before" and you'd be right because I've probably been bringing many of the same messages since I first smelled the smoke. It seems we like to see the flames before we spring into action.

Topics to Cover Today

I want to address a few topics today, including a few musings on broader global implications that I believe are relevant to our situation here in Ontario.

First, I am going to provide a brief progress report on initiatives aimed at addressing reliability issues that surfaced last summer

I also want to report on Electric Reliability Developments in North America which are now well advanced.

And I do want to take stock of where we are in Ontario and where we need to go.

I am not going to reopen the debate on Toronto. You know where the IESO stands on this. We have highlighted the need for new supply in Toronto by 2008 and the government and others are responding to this. I don't think I need to flog this horse

any more except to say that I note that we now have a debate around the precise type, location & size of generator needed to address the Toronto situation. From my own perspective, I would like to see far more generating capability within Toronto and the GTA. With transformers and lines and transmission stations operating close to limits during peak load periods, and with most of the ability to provide repairs and replacements for transformers and switchgear being off-shore, the failure of such equipment has the potential to leave the city exposed to the possibility of shortages for an extended period.

We have also made our concerns clear about the coal replacement plan and I am pleased with the response from the government, OPG and others to our Ontario Reliability Outlook and the commitment that we all have to a reliable electricity supply for Ontario.

However, let me assure you that I do have a few comments to make today about the situation we are in and a bit of a global perspective looking at the longer term … which of course are only being made in the interests of furthering debate and moving the yard sticks.

Reliability Initiatives

As many amongst you are now aware, the dry, hot summer last year presented significant demand and supply challenges and highlighted many of the issues and weaknesses that we have to address to ensure a reliable electricity system, for today and for tomorrow.

Hydroelectric generation was down by three per cent last year over 2004 largely as a result of the weather. Hot weather, environmental limitations on the use of facilities and dry conditions seem to go hand-in-hand and of course, provide triple jeopardy on an already tight system particularly since summer peaks, unlike winter peaks, stretch over a much longer number of hours during the day, making significant demand for the use of limited peaking hydro capability.

Record Demands – new peak (26,160 MW) set.

There were two days of voltage reductions, 12 days of public appeals, and numerous emergency energy purchases. I should point out here that there is a distinct difference between purchases for need which are the lesser portion of our purchases and the purchases for economy which reduce the cost of electricity delivered to consumers. Purchases for need are clearly higher priced as you would expect since they would often tend to be sourced from marginal resources in neighbouring jurisdictions who themselves are likely experiencing high demands and these marginal resources would often be gas and limited storage hydro driving the prices up.

A reliable, consumer friendly power system is not one that relies heavily on voltage reductions, emergency purchases, environmental variances or even the actions of consumers responding to appeals to reduce their air conditioning during a heat wave.

We have been working with stakeholders since last summer to ensure we don't experience similar conditions this summer if we get hit with similar weather conditions.

The Day Ahead Commitment Process is expected to reduce the failure of energy imports in real time, increase commitment certainty for generators with long start up lead times and provide early warning for energy or capacity shortfalls

The IESO Board recently approved the market rules for the DACP. The IESO is now reviewing detailed implementation of this process with stakeholders.

The IESO is also assessing the need for a real-time failure charge applied to imports when there is no good reason to accept that failure to deliver was unforeseen and beyond their control.

An Emergency Load Reduction Program is to be introduced when consumers will be paid to reduce demand. Market rules are expected to go to the Technical Panel next month and the IESO Board in April. This program should help to reduce the number of times and duration of voltage reductions and emergency purchases.

We are also on track to implement initiatives that will reduce the number and volatility of dispatch instructions and the resultant wear and tear on generators. Again, we are looking to go to the Technical Panel in March.

Electric Reliability Organization

We are heavily involved in Electric Reliability Organization matters. I spoke on this subject in Washington earlier this month – once again as the lone or token Canadian – it must be the accent!

You will recall that with the passage of the energy bill in Washington after several years of debate, impetus was given to the development of mandatory standards for operating and planning the power system across the interconnected North American networks, something we already have in place in Ontario. I have, and continue to be, involved in several facets of this work, both as a member of the Post Legislation Steering Committee and as Chair of the ERO Membership Task Force.

We have outlined the Canadian differences that need to be recognized and pointed out that regulatory oversight will play out differently in Canada. Regulators in Canada are expected to develop MOUs with the ERO to define the respective relationships.

We also now have 3 Canadians on the 11 person NERC Board of Trustees, including Fred Gorbet who has been Chair of the Market Surveillance Panel in Ontario and who has a good knowledge of Reliability, Markets and Canadian and Ontario needs for reliability.

For our part, the IESO will continue to play its part in representing Ontario and Canadian interests. I've always been acutely aware of the interdependency between neighbours in this business and it's essential that with our plans and our operations, we remain members in good standing if we are to continue to receive the support that we have relied on over the years.

Enhanced Approvals Process

Earlier I mentioned the Ontario Reliability Outlook that the IESO published earlier this month. There are copies of the Outlook at our booth in the Trade Show for those of you that would like a copy.

As I said, I am not going to repeat some of the Outlook messages about coal replacement and Toronto. Our positions on those two areas are well known.

But the Outlook raised another issue that I think does need more attention … that is the need for a more efficient approvals process.

This is relevant when it comes to both generation and new transmission. I am told that it can take twice as long to get approval to build a transmission line as it takes to actually build one.

This is an area that we need to move quickly on given the need for new transmission in the near future to address the reliability issues that we face to either defer the need for new generation in some areas or deliver power from new generating facilities in other areas.

Clearly we need to ensure that concerns are properly addressed when we are moving ahead with new projects. However, I believe we can do that in a more efficient manner, avoiding unnecessary duplication that can waste time … time we don't have.

Which brings me to another point. Part of our problem with gaining timely approvals has been of our own making. Earlier identification of needs and decisions to move ahead on those needs could ameliorate albeit not eliminate such concerns. Hopefully, the Integrated Power System Planning process will address this over the longer term, however today we are where we are, in need of an expedited process.

Status of the Market

Recent developments – the extension of the price cap, the Bruce contract, the early movers contract and other actions -- have left some scratching their heads about the current market structure in Ontario and its relevance. Certainly we are not on a direct path from A to B in developing a fully competitive market based segment and there continue to be so many twists and turns that it is easy to see how one could get lost and forget where we are supposed to be headed.

Nevertheless, I continue to believe that a market based competitive approach is the best option for this sector. But I am pragmatic enough to realize that this is not going to happen overnight. It is not a quick step, more of a waltz so far – 3 steps forward and 2 steps back.

I also recognize that there are a number of issues that need to be addressed and some of the solutions do not at first glance appear to be consistent with the market based approach that I am advocating.

But I hasten to add that these are solutions in the present and for the present situation … not for the future. And it's how we deal with issues tomorrow that I am concerned about.

In looking towards the future we need to remember the lessons that we have learned … not just from the past four years since the market opened but in the past 100 years of electricity service in Ontario.

We also need to closely examine short term fixes before we implement them so that we are not precluding longer term opportunities and benefits.

These lessons have to be applied to our thinking for the future. Yes there is a need for stability today, but if we don't wean ourselves off guaranteed contracts and fixed prices how can we ever expect to learn from the experiences of the past where prices were heavily subsidized with no incentives to conserve.

Planning for the Future

So what can we do?

First let's remember that we didn't get into this situation overnight, and we won't get out of it overnight. We need to take the time to work out the answers. Unfortunately a lot of time has been lost. Delays also create crises and options disappear. We can't afford more procrastination. As delays become more prominent, we would find that decisions taken in crises are rarely optimal and hardly ever the ones compatible with future needs.

I have been involved in the Ontario electricity sector for 30 years and I have seen more change in the past five years than I did in the first 25.

As we move forward, we need to have the fortitude to stick to the game plan and create the environment for future stability; essential for the level and type of investment needed, especially if we are to have the private sector recognize sustainable opportunities and take some of the risk off the backs of the consumer and the taxpayer.

Our Market Vision

Our first step is to work together on the development of a long term vision for the future of the electricity market in the province – an end state where the potential of the market is realized … an end state with transparent market signals that drive decisions and where the need for regulated prices and investment support is at a minimum.

We have been working with the Ontario Power Authority and our Stakeholder Advisory Committee on the development of this market vision.

From our end, we envision four elements for a successful market:

Electricity suppliers and consumers will actively manage their spot price and consumption risk by contracting between one another

The default load will have its forward risks actively managed on their behalf in a way that does not preclude retail competition

The market conditions will attract equity investors who are seeking conditions where there is a desirable balance between risk and rewards.

And while private sector investment is the norm, certain investments may include government involvement to manage risks when the investment is needed

We can realize this vision, but we must move carefully, planning the journey, anticipating and effectively dealing with the issues when they arise.

If we are to attain a future where we have a reliable and responsible energy segment, there are a number of things that we have to take into account. For example, I have been a champion, and spoken publicly of the need for conservation, demand management and environmentally benign sources of supply since way before it became fashionable. However, I have always known that this is only part of the solution to a reliable and competitive future. Don't expect everyone to get religion.

In a similar vein, I have over the past many years frequently rued the fact that we have a tendency to become too Ontario-centric and lose sight of the bigger picture, its impact upon us and our prosperity and the limits of our impact – both in North America and globally.

I think this is particularly important in looking at the longer term and Ontario's success in that long term.

First, we need to balance the cost impacts of our initiatives, laudable though they might be against the possibility of becoming less competitive. After all, if we are producing fewer goods, both for home and export consumption, to what extent will the gap be filled by countries who will need to increase their electricity supply from higher emitting sources to enable their increased production.

Secondly, looking forward 10 or 20 years, it seems to me that the majority of new supply of electricity worldwide will be found in developing and currently under-developed countries. For many, coal and nuclear units will be their major sources of supply. Irrespective of whether Ontario has a future for coal-fired generation there is a need globally for work on cleaner coal options and advancing the nuclear state of the art. Global warming for example is by definition a global and not just a national issue

and the extent to which both economic and emission needs are to be realized in the longer term does depend on developing the technologies.

Again, I would re-iterate that conservation and demand management must and will play a significant role but in those many countries where electricity is either scarce or unavailable, we will see significant growth of the supply side. You can't conserve much when you have little or nothing to conserve from.

Conclusion

If we are going to move this market forward towards our end state vision, what do we need to do?

First of all, we need to work together – need to resist pointing figures, criticizing other participants in this market.

We all share the burden and the blame. If we can't make it happen, "shame on us". Those accountable will have to make the hard decisions … decisions that will become all that much more difficult to make and implement if we circle the wagons and start to shoot inward.

We also can't lose sight of the public's interest. We need to demonstrate the benefits that evolving the market can bring to Ontario's electricity customers.

That will mean continued customer education and consultation … first to demonstrate the need for change and for the public to understand the benefits that are available in a more competitive sector.

Also, let's step back and look at the global picture. The world becomes ever closer, both in terms of energy demand and supply impacts and in cross-border and universal environmental concerns. Are we on the right path? Time will tell. However, on a global basis we cannot ignore the fact that others will turn to more conventional forms of generation in addition to renewables. The technology must be advanced to limit the environmental consequences.

For my part, you can be assured of my continued engagement and commitment. I'll be the CEO until I'm not the CEO and in any event, I will retain an interest in the electricity file.

Albeit somewhat out of context, I would like to close by quoting Dylan Thomas …"Do not go gentle into that good night, Old age should burn and rave at close of day; Rage, rage against the dying of the light."

Thanks very much. I look forward to your questions.