

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter, on the Commission's own motion, to)
commence an investigation into future capacity)
requirements.)
_____)

Case No. U-14231

Comments of the Ontario

INDEPENDENT ELECTRICITY SYSTEM OPERATOR

On the Michigan Capacity Need Forum:

Staff Report to the Michigan Public Service Commission

The Ontario Independent Electricity System Operator (“IESO”) hereby submits the following in response to the Order Requesting Comments and Notice of Hearing in this proceeding on January 10, 2006.

I. Description of the Ontario Independent Electricity System Operator

The IESO is the organization responsible for establishing and administering wholesale electricity markets and directing the operation and maintaining the reliability of the integrated power system within the Province of Ontario. The IESO is the NERC Planning Authority¹, Reliability Coordinator and Control Area operator in Ontario, and is a member of NPCC. The IESO's responsibilities include a broad range of integrated operations, including security assessment and scheduling, administration of the wholesale electricity market and ancillary services, and real time coordination of the power system. The IESO-controlled electric power grid is interconnected with grids in two Canadian provinces and three U.S. states.

The IESO is subject to regulation by the Ontario Energy Board (“OEB”), i.e., it is not subject to MPSC (or FERC) jurisdiction. However, given the integrated nature of the power system across borders and the long-standing electricity trading relationship between Ontario and neighbouring U.S. States, the IESO has been and continues to be a participant in appropriate MPSC proceedings. To that end, the IESO presented Ontario’s coal replacement program to the Capacity Needs Forum (“CNF”) on August 25, 2005 as well as answered the questions of staff and CNF participants in attendance.

II. General Comments

The IESO appreciates the opportunity to comment on the MPSC Staff Report on the Capacity Needs Forum. The IESO commends the MPSC staff and CNF participants in producing a comprehensive report.

¹ Some Planning Authority functional requirements have been delegated to the OPA.

The IESO's comments will update the MPSC on the recent coal replacement program activities in Ontario and provide some brief remarks on the report itself.

III. Ontario Coal Replacement Program

As stated in the August 25, 2005 presentation to the CNF, the Ontario Government has initiated a program to replace all coal-fired generation in Ontario. There is approximately 6500 MW of coal-fired generation scheduled for decommissioning between 2007 and 2009. Since the coal replacement program announcement, more than 6,300 MW of new generation and demand management projects have been procured. Of this amount, over 3,000 MW of new energy resources have been acquired since the IESO's presentation in August. Through the newly created Ontario Power Authority ("OPA"), roughly 2250 MW of additional generation and demand management is now in the RFP or RFQ stage with contract execution scheduled for the summer of 2006. Of significance since the IESO's August 2005 presentation, an agreement has been reached with Bruce Power in the return-to-service of two nuclear units totalling 1,500 MW. The first unit is scheduled for in-service in 2009. Additionally, the OPA has signed a contract with Sithe Global Power for an 880 MW combined cycle gas plant with staged completion in 2007 and 2008. Further new resource initiatives are expected in the near future. In summary, the efforts listed above demonstrate Ontario's commitment to the coal replacement program and the substantial progress to acquire suitable replacement energy.

The IESO objectives under Ontario's Electricity Act require the IESO to "direct the operation and maintain the reliability of the IESO-controlled grid to promote the purposes of [the Act, and] to work with the responsible authorities outside Ontario to co-ordinate the IESO's activities with their activities." In meeting these requirements, the IESO recently released the Ontario Reliability Outlook² ("ORO") that replaces the IESO's 10-year Outlook. This new semi-annual report will report on the progress of the

² http://www.ieso.ca/imoweb/pubs/marketReports/ORO_Report-2006-1-1.pdf

inter-related generation, transmission and demand-management projects underway to meet future reliability requirements. The ORO specifically addresses local areas as well as the coal replacement program. Of note, the IESO is recommending that “prudence requires that provisions be made to ensure the capability of Lambton and Nanticoke Generating units to operate beyond the announced shutdown dates...” In response the Ontario Ministry of Energy has stated that “[Ontario] will not shut down any coal-fired plants until there is sufficient new generation on line...”

The IESO will continue to closely monitor the progress of the many generation, demand-management, and transmission projects that are necessary to replace the coal-fired plants in Ontario. The IESO’s findings will be reported publicly through future ORO reports. Our position remains that this is one of the more “significant undertakings in the history of Ontario’s electricity sector. The implementation of the government’s plan to stop burning coal in 2009 recognized the need to maintain reliability as coal-fired generation is phased out in favour of cleaner generation sources. The IESO is committed to working with the provincial government and others to ensure that reliability is not compromised during this transition period.”³ **To that end, we reiterate our statement that the IESO will continue to meet our area, regional and interconnection obligations through our extensive connection and adequacy assessment processes. Ontario will not rely on the interconnections for capacity requirements during the coal replacement program with the exception of unexpected extreme weather variations.**

IV. Future Planning

Related to future projects beyond the coal replacement program, the OPA submitted its Supply Mix Advice Report to the Ontario Ministry of Energy as the first step in the development of the 20-year Integrated Power System Plan (“IPSP”) on December 9, 2006. The OPA expects to submit the IPSP identifying required new

³ Dave Goulding, President and CEO of the IESO.

demand response, conservation, generation and transmission projects to the Ontario Energy Board for approval in Fall 2006.

V. Staff Report

Due to the configuration of the Michigan and Ontario transmission systems, both areas are subject to parallel path flows. These parallel flows can be East-to-West or West-to-East depending on prevailing generation patterns in the eastern interconnection. At times Michigan and Ontario may see upwards of 1,000 MW of loop or parallel flows between Michigan (Midwest ISO) and the IESO⁴. In an effort to improve reliability and reduce congestion, Hydro One has been given approval by the OEB to expand the transmission capacity at one of Ontario's congested flowgates⁵ by some 800 MW. This expansion will improve the utilization of Ontario Power Generation's Beck complex and the Ontario-New York Niagara transmission import capability. To that end, the IESO suggests that future discussions take place between the planning authorities in Ontario and Michigan to ensure that all parties are aware of planned expansions. The IESO stands ready to assist the parties in Ontario and Michigan on this matter.

As the MPSC Staff is aware, the Michigan-Ontario interface is now designed to be a fully phase-shifted interface capable of controlling approximately +/- 600 MW of non-scheduled flows⁶. The IESO believes it would be beneficial to both Ontario and Michigan if this equipment was in-service controlling flow as close as practical to the scheduled transactions.

⁴ Parallel flows affect Ontario transmission elements from the Michigan to NY interface. Ontario has two interfaces with NY. The largest interface near Niagara Falls is free flowing while the smaller interface on the east side of Lake Ontario is phase-shifted.

⁵ Hydro One received approval to expand the Queenston-Flow-West (QFW) corridor northeast of the NY-Ontario interface. The project is slated for in-service prior to the summer of 2006.

⁶ With the three existing phase-shifting transformers in service, the IESO estimates that approximately +/- 400 MW of parallel flows could be controlled.

Finally, the Staff Report mentions increased exports from Michigan because of Ontario's coal replacement program. The IESO trusts that the information contained earlier in our submission will alleviate Michigan's concern over Ontario's perceived reliance on the Michigan tie-lines to meet Ontario's domestic demand.

We look forward to future discussions on the coal replacement program with the MPSC. The IESO is available to provide updates if called upon by the MPSC.

Respectively submitted on this 1st day of March 2006,

/s/ Kim Warren _____

Kim Warren
Manager, Regulatory Affairs
Independent Electricity System Operator
655 Bay Street, Suite 410
P.O. Box 1
Toronto, Ontario
M5G 2K4