

Notes for remarks for
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Reviewing Bill 100
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Introduction

Thank you very much for the opportunity to appear before this committee. Our appearance here comes on the heels of the one-year anniversary of the August 14, 2003 blackout. It was the most severe blackout in North America's history affecting more than 50 million people in Ontario and eight States in the U.S. We have learned a lot in the past 12 months and, as an industry across North America, have collectively taken actions that I believe leaves us less prone to the occurrence of such a situation.

I will talk more about that in a few moments but first I would like to make some comments about Bill 100. I will leave time to answer questions you may have. I have also left with the Clerk two recent IMO publications. One deals with the 10-year Outlook for supply and demand of electricity in Ontario and the other looks at some of the ways that larger customers can better manage their electricity costs.

Bill 100 offers an important step in moving forward and addressing some of the issues that have surfaced in Ontario's electricity sector over the past few years. At the Independent Electricity Market Operator, we are committed to doing our part to ensure a successful implementation of the new electricity structure envisioned under Bill 100.

The IMO was created five years ago as part of the break-up of Ontario Hydro. Ontario Power Generation was set up to run the generating plants, while the IMO's responsibilities included directing the flow of electricity across the high voltage province wide network owned by Hydro One and other transmission companies. We also were given the responsibility of managing and operating the competitive wholesale electricity market and working with neighbouring jurisdictions to manage an integrated North American electricity network.

The IMO is an independent, not for profit entity. We are governed by a Board whose Directors are appointed by the Government of Ontario. Our fees and licences are set by the Ontario Energy Board. We operate independently of all participants in the electricity market.

That independence will carry forward under Bill 100. Our new board will be composed of the CEO and 10 directors to be appointed by the Minister of Energy. If passed, Bill 100 will require that the directors must be independent and not represent generators, distributors, transmitters, retailers or market participants.

The independence of the Board, will be complemented by an advisory committee that will provide advice on such matters as may be specified. Stakeholder consultation is an important part of the way we do business, so this committee will provide critical guidance as we move forward.

Our independence is key for a number of reasons. As the Minister of Energy told this committee, Ontario urgently needs new supply, transmission and demand initiatives to address the potential shortfall. Our plants are aging, demand continues to grow. The Minister indicated that an investment of \$25-to-\$40 billion will be required in Ontario's electricity sector over the next 15 years.

Maintaining the independence of a system and market operator is key to investor confidence. Investors want a level playing field for their transactions and investments and the IMO has no bias when balancing competing commercial interests in a variety of operational fields.

Experience to date

The issues that have surfaced since the market was opened on May 1, 2002 have been well documented ... in particular, issues around price, conservation and the need for a long-term integrated plan for Ontario's electricity supply. But there were also success stories during those two years.

The wholesale market operated the way that it was supposed to, particularly during tight supply-demand periods ... attracting badly needed generation from inside and outside Ontario, filling the inter-ties and prompting large customers to cut back or shift their use of electricity when prices were high.

The structure that the government has introduced with Bill 100 allows large customers and others to continue to realize the benefits offered to them under a market-based pricing system. At the same time, the government is moving to put long-term solutions in place to address the changes needed if Ontario is to maintain a reliable, economic, supply of electricity for many years to come.

Appreciating the True Value of Electricity

I believe that a source of a good number of the problems that have bedeviled our industry has been the lack of appreciation of the true value of electricity. Provision of electricity below actual cost has bred inefficient consumption patterns and created a deficiency in energy-management technologies.

From our point of the view, the market puts a value on electricity that is more reflective of the cost to produce. The wholesale price signals when supplies are tight and can prompt consumers to re-evaluate when they use electricity and why. And by lowering demand, we can lower our supply requirements.

The market provides an environment where shifting electricity use to times of the day when demand is lower becomes more than just a “good thing to do” but offers real benefits to those who make the effort to change the way they use electricity.

The IMO has been working to promote demand response within the market. Already large volume users in the market manage their energy use to take advantage of lower price periods. Our Emergency Demand Response Program provides us with an important tool in managing tight system conditions.

But we're not nearly close enough to maximizing the potential demand response can have to help in maintaining a reliable and efficient system.

One of the key barriers we have found is consumers just don't have the tools or the capabilities to offer demand response into the market. That's why we are embarking on a new program – the Transitional Demand Response Program -- which supports investments in new technologies and acclimatizes companies to think and work in more energy efficient ways.

Other initiatives under development, such as the Day-Ahead Market will help consumers better anticipate prices and adjust their consumption accordingly.

We applaud other efforts to deliver the benefits of the market to the broader consumer base, such as the government's commitment to install smart meters in homes across the province.

By maintaining the role of the market, Bill 100 retains one of the key strengths of the current system. Our wholesale market is the foundation of building a conservation culture, where electricity is used wisely and our supply requirements are tempered by our ability to manage demand.

The IMO role

Now let me address where the IMO fits in with the proposed legislation. While there is a name change for us to the Independent Electricity System Operator, our primary roles and responsibilities around the market and system operations, and our independence from market participants, will continue.

But there are areas where our organization can and should make a difference. We have the skill sets that can help make the changes successful. We can act as a resource that the Ontario Power Authority and the Ontario Energy Board can turn to in order to meet their new responsibilities.

In creating the new Ontario Power Authority, I would expect there would be a desire to limit the size of the organization to ensure that resources in the new structure do not present a significant increase to the level of resources that currently exist in today's structure. Turning to the IESO for support will maximize effectiveness in the industry and reduce the need for a major increase in resources.

There will be a need for the two organizations – the OPA and the IESO -- to work closely together. Both the OPA and the IESO will have an obligation to assess system reliability going forward and to make plans and take action to ensure that there will be adequate supply available to meet Ontario's demand for electricity. The IESO responsibilities are in the shorter term – planning and managing the minute by minute operation of the system and looking out over the next year and a half or so. The OPA planning window needs to mesh with the IESO timeframe and extend into the longer term.

Decisions made today will inevitably affect the viability of future plans. But equally, plans for the future can also have an impact on the present. Both organizations need to recognize that the plans and decisions they make under their own accountabilities have the potential to affect plans and decisions made by their counterpart. Longer term actions must lead to a system that can be operated reliably in real time.

The IMO has a number of handoffs that occur within our own organization. These handoffs occur from one function to another ... from real time to the short term and beyond operational time frames as we address our broad set of integration accountabilities related to managing reliability, directing the operations on the power system, and managing the competitive wholesale market. Such handoffs will also occur with the IMO and the Ontario Power Authority, reinforcing the need for both organizations to work closely together.

Given all this, the draft legislation proposes that the OPA have the ability to delegate any of the OPA's powers or duties to a committee of the board, to a panel established by the board or to any other person or body such as the IESO. Many of you will be familiar with the IMO's 10-Year Outlook, which has, over the last number of years, served as a planning tool for the industry as a whole.

We will undoubtedly be discussing with the OPA how best to leverage this expertise in forecasting electricity needs and assessing the system. Such a step can contribute to the effectiveness of the new structure while limiting the need for new resources.

The approach of the current RFP process that the government is implementing to bring in 2500 MW of new generation and demand side initiatives is a perfect example of the way the current IMO systems and procedures can be used to effectively integrate new resources into Ontario's electricity sector.

With respect to the OEB, the IESO, through its Market Assessment and Compliance Unit, and the IESO's real time visibility of the operation of participants, can continue to support the Market Surveillance Panel as it does today.

At the same time, the Market Assessment and Compliance Unit would continue to provide operational and analytical work for the IESO.

Demand Management

There is also a role for us to play in the conservation and demand management efforts.

The November, 2002 decision to freeze low volume customer electricity commodity costs at 4.3 cents per kilowatt hour took away price as an incentive for low volume customers to conserve. The interim pricing structure which charges a higher rate for electricity consumed over a base amount is a step in the right direction to encourage wiser use of electricity.

While the majority of customers in Ontario are eligible for the fixed rate, there are about 40,000-to-60,000 customers who are still paying the market price for electricity or have signed with retailers. While relatively small in number, these customers reflect approximately 55 per cent of the load in Ontario (including the market participant load).

Most of these customers have a limited knowledge of the electricity market, or more importantly the ways that are available to them to realize the benefits of a market-based system. Awareness and education are necessary and the IMO is working with Local Distribution Companies and trade associations to get these customers the information and tools they need to better manage their electricity costs.

Our web site, which I would encourage you to visit, has information readily available to help customers track price and supply/demand trends.

There are other ways the IESO can contribute. As part of our mandate, we coordinate operations with neighbouring provinces and states. Through this, we have established excellent relationships with many North American regulatory bodies such as FERC, the Federal Energy Regulatory Commission, the North American Electricity Reliability Council or NERC, and other reliability authorities. I am also a member of the ISO/RTO Council which address a number of issues facing North America's electricity sector.

Ontario cannot operate its power system in a vacuum, neither can it develop its plans in one. Liaison with neighbouring jurisdictions is required. The relationships that the IMO has developed can be utilized for the benefit of the province moving forward.

Blackout

Before I conclude, let me spend a few minutes looking back at the August 14, 2003 blackout which affected 50 million people in Ontario and eight states in the U.S. As you know by now, the blackout did not originate in Ontario nor did any actions in Ontario contribute to its severity.

When you look back, it is clear that there were a number of failures south of the border that shouldn't have happened. One of the positives out of August 14th, is that it put the spotlight on some of the entities that were operating poorly and gave us an opportunity through NERC, to address what we need to improve procedures and practices across this industry.

The North American Electric Reliability Council or NERC has conducted 20 control area audits to ensure preparedness for this summer covering 80 per cent of North America's electricity supply. Ontario was one of the areas audited.

Ontario has been internationally recognized as having in place a leading structure for managing reliability and the NERC audit confirmed that. The results of the audit demonstrated that the IMO meets or exceeds the standards for electricity system reliability. It concluded that the IMO personnel, facilities, tools, and training are excellent and that the IMO has a robust restoration plan that worked well during the blackout.

Despite those high marks, we haven't stood still. We have improved our communications capability and worked with other Ontario industry players to address some of the recommendations outlined in the Task Force report. It's essential that this diligence and the necessary processes, accountabilities and relationships must be retained through the transition to the new structure.

In closing, let me say that the IMO is committed to ensuring a smooth transition to the new structure so that all Ontario electricity consumers can count on a reliable supply of electricity for many years to come.

Thank you again for the opportunity to appear before this committee. I would be pleased to answer any questions you may have.