

Notes for Remarks

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Introduction

Thanks very much.

I am very pleased to be here and I want to thank Shane and the other organizers for inviting me to be part of this panel.

An effective approvals process is fundamental to successfully implement the many transmission, generation and other projects required to meet Ontario future reliability needs. Yet as we outlined in our first two Ontario Reliability Outlooks earlier this year, the complex regulatory process that we now operate under presents some high risks to the timely implementation of these projects.

Today I would like to look at some of our reliability needs over the next decade, how those needs could be negatively impacted by the current regulatory approvals process and finally offer my thoughts on some of the principles we should consider when we are making changes to the process.

I will start with an outline of some of our reliability needs today and in the future.

The Reliability Picture Today

Ontario's demand-supply picture has improved in the last three years. Even with the loss of the 1,200 MW Lakeview Generating Station, which was taken out of service last year, there is still 2,000 to 2,500 MW more generation available than there was three summers ago. Ontario's supply picture has been enhanced with the addition of the Pickering Units 1 and 4, Bruce Units 3 and 4, new gas projects like the GTAA Unit and Brighton Beach and more than 200 MW of new wind.

The transmission network has also been enhanced improving flows in needed areas of the province, particularly in the Greater Toronto Area.

Over the past 12 months, the IESO introduced a number of new market mechanisms including the Day Ahead Commitment Process and an Emergency

Load Reduction Program to help avoid a repeat of the strained system conditions we experienced too frequently during the summer of 2005.

And I have to say, having struggled through the summer of 2005, it is not an experience that I want to go through again. The sustained high demands, the reduced hydroelectric energy, environmental limitations, and transmission limitations all resulted in an incredible strain on the system. There were numerous hours when the system was operated under emergency conditions. We had two days of extended voltage reductions, and far too many appeals to the public to reduce their electricity consumption.

And while there were more than one or two anxious days during the heat waves this summer, we fared much better. The new supply, transmission enhancements, the new market mechanisms, good water conditions, terrific performance from Ontario generators and transmitters, and good coordination with our neighbours all contributed significantly to our ability to meet the new peak demand record of 27,005 MW set on August 1. This was more than 800 MW higher than what we experienced last summer and 1,500 MW higher than the peak demand we experienced in 2002.

To give you a sense of just how well the Ontario generators performed this summer ... Despite some hot days and high demand hours, August 2006 had the lowest volume of energy imports of any August since market opening. Last month Ontario's energy imports were less than half of the imports a year ago in August.

Over the past five years, we have relied heavily on imports to meet demands in Ontario during high demand days, particularly in the summer. That's one of the benefits of the interconnected market we operate in. However at times this summer, Ontario generators were able to help our neighbours meet their needs. It has been more than a few years since I have been able to say that.

Day Ahead Commitment Process Results

One of the factors that helped meet the demand this summer was the Day-Ahead Commitment Process (DACP). We implemented the DACP to address two

significant stresses to the Ontario system, the certainty of generator availability and failed intertie transactions.

Under the DACP, internal resources and import transactions are committed one-day in advance, which provides our control room with a reliable view of the next day's available supply. As a result, there is more flexibility in managing the reliability of the system in real-time.

In its first real test, the record setting week of late July and early August, the DACP successfully met each of its intended objectives. For the forecasted peak hour on the record demand setting day, August 1, the IESO had economically committed 98.6 per cent of its internal resources one day in advance. Although actual peak demand was 700 MW heavier than forecast, the market responded in real-time by scheduling additional imports to compensate for the difference.

When you compare import failure rates there was a significant difference year over year during those peak weeks. The failure rate in 2006 at an average of 4 per cent, was half of what we experienced in 2005.

Scheduling imports day-ahead clearly provided the system with more certainty that they would deliver in real-time, which was especially crucial on the days we faced severe conditions.

Notifications for activation of the Emergency Load Reduction Program (ELRP) were also issued on August 1 and August 2, resulting in the submission of 69 MW and 43 MW of offers respectively. This new program, which pays customers if they are called in an emergency, is a great insurance mechanism which I hope will grow in the future.

Future Reliability Needs

While we met the reliability challenges of the summer, there are clearly more ahead.

Ontario's aging generation fleet, transmission constraints, limited investment over the past decade, the continued growth in demand, and the increasing

weather impacts on demand all contribute to the need for new generation, transmission and demand management projects.

Make no mistake about it, we are facing the biggest infrastructure change in Ontario's history. Up to 3,000 MW of new gas generation is expected to come on line in the next two or three years and 1,100 MW of new wind is expected over the same period. We are also looking at more wind, more hydroelectric, refurbished nuclear and new nuclear all in the not too distant future. All of this is happening in a relatively short period of time and must be carefully managed and coordinated.

While some plans have been initiated, more are required, and will no doubt be identified more clearly in the Ontario Power Authority's upcoming Integrated Power System Plan.

Toronto's Needs

One of the most pressing areas for action is in Toronto. Toronto is one of the largest cities in North America without generation within its boundaries. Contrast that to New York City, where it is a state requirement that 80 per cent of its needs can be supplied by local generators.

Work has begun on the Portlands project to address overloading concerns in Toronto. But longer term a new transmission path will be needed to reliably meet Toronto's needs in the next decade.

Transmission enhancements will also be required in other parts of the GTA, such as GTA West, where along with the Sithe Goreway generating project now under construction, transmission additions are needed to address growing demand.

Reliability Concerns in Other Areas

There are also generation and transmission needs in other areas of the province. Bruce Power has announced plans for the restart of Bruce Units 1 and 2 and there are also a significant number of planned wind projects for the Bruce area. The existing transmission system cannot accommodate all of the planned generation

and a new 500 kV transmission line will be needed to reliably deliver the full capacity.

Expansion of the four existing hydroelectric facilities on the Lower Mattagami River in Northeastern Ontario will add to our supply capacity but also compound the congestion that exists now. Power flowing south is now restricted to 1,400 MW and a series of transmission enhancements will be required to address the congestion issues and maximize the use of the additional supply. This need will grow if northern and wind potential are developed.

These are yet a few of the generation and transmission projects required. Major transmission investments can take up to 10 years to complete. Certain generation investments can take much less time than this. And yet all of the projects that proceed will require some form of regulatory approvals.

Recent Developments

I am both encouraged and discouraged by some recent comments about the effect of the regulatory process on the electricity sector. I am encouraged by comments from Minister Duncan about his commitment to removing barriers that are limiting participation in the Standard Offer Program announced earlier this year. But I am certainly discouraged by news that a number of wind projects are being cancelled or delayed because of problems associated with getting necessary permits.

Regulatory processes will never be perfect. And while I feel quite strongly about the need to improve the process, we cannot afford to put everything on hold while that takes place. And as the Minister also quite rightly said recently, there will be consequences associated with not having projects built on time.

We need to get on with it.

Principles

There are a number of principles that should be recognized to help guide the development of an expedited but thorough approvals process that addresses the needs of proponents, intervenors and the customers these projects will serve.

Effective communication, I would suggest, is the first principle. Effective communication is a key to enhancing the regulatory approvals process. All projects will require some form of approvals. The totality of the approvals required needs to be understood at the beginning of the process both by applicants and by intervenors.

The second principle would be the need to streamline the approval process and avoid duplication. There is no question that each project raises issues and concerns that need to be addressed. However, once issues have been dealt with, they should not need to be dealt with in another forum, thus avoiding duplication, reducing timelines and reducing regulatory costs.

Finally I believe that the approvals process must be time bound and recognize the timing requirements for new projects especially when it relates to the various appeals processes that can arise.

The ultimate goal should be a predictable regulatory framework that addresses the legitimate needs of proponents and stakeholders alike in a timely manner.

Conclusion

In conclusion, let me sum up some of my comments. First of all, while we were able to reliably meet the new peak record this summer, we cannot afford to get complacent. As we have witnessed over the past four or five years, weather is increasingly impacting summer demands. We have become a summer peaking jurisdiction and in the last four years, our summer peak demand has jumped almost 1,600 MW.

There are some short term concerns, Toronto and other parts of the GTA, that are being addressed but longer term, there are many reliability concerns that need to be resolved. The complex regulatory approvals process that we currently operate

under, can have a negative impact on the province's ability to meet those needs and prevent timely implementation of new facilities.

Environment, local and other concerns must be addressed before these projects are implemented. But we need to do so in a sensible way that doesn't compromise reliability.

As you heard, I have been appointed as the incoming President and CEO of the IESO. The appointment will take effect on October 11. I have some big shoes to fill and I was extremely glad to see Dave Goulding's outstanding contributions to the industry honoured last night at the OEA Awards dinner. I have a very experienced and capable senior management team and a fantastic group of employees at the IESO to lean on. I look forward to working with all of you in this room in my new role as we tackle the many challenges ahead of us.

Thank you very much.