



Notes for Remarks by

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Early Market Operations: Rules and Tools

Good morning. It's a pleasure to be here. We don't yet have 2 months experience of Ontario's competitive electricity market but, judging from the number of you here and the agenda for the day, it confirms that there's already a lot to talk about. I thank IPPSO and the other sponsoring organizations for arranging this conference. It gives us the opportunity to get into some of the devilish details.

I think we all recognize that the market so far has gone as smoothly as anyone could have wished. We've had some incidents; we've

seen some price movement; I've had generators tell me the prices are too low; and consumers tell me the prices are too high. We've sometimes seen quite large differences between pre-dispatch demand and price curves and the actual dispatch results; we've had questions about Meter Trouble Reports and the Notice of Disagreement process. We need to talk about these. We need to learn of your other concerns and issues. And we need to discuss them. But what I'm particularly looking forward to, is hearing the debate between all sides of the market; between the generators and consumers, the retailers and distributors.

For we will not have a successful market if only one participant class is satisfied. The market belongs to all the participants. The IMO recognizes that meeting its customers' needs is paramount. We aim to operate and evolve a marketplace which is responsive to, and cooperatively supported by you, its participants. Customer focus is one of our values.

Another of our values is Integrity. Our business will always be conducted with consistency, objectivity, and honesty. We will operate

the marketplace openly but with respect for the legitimate confidentiality of our customers' information.

I've said in previous speeches that this marketplace needs to earn the trust of its participants and the public. But so does the IMO. So, to support the transparency of our operations, along with the already posted financial reports, we will be posting our corporate performance targets and results to date on the IMO web site. You'll be able to see our successes and our warts. Let's be fair, no organization is perfect, and we're no different. But we will be open, and we will work to meet your needs.

In terms of the IMO web site, we've had some very positive feedback. There's a lot of information on it, but we've tried to make it easy for you to navigate and find what you want. Further enhancements will be coming shortly.

On Monday, there were three notable postings. First, that the stability period will end on June 30. You'll recall that we wished to ensure that the IMO and Day One participant processes and systems were

functioning soundly before any participants entered the market who had not been involved through the final stage of Coupled Operational Dry Run. We have now got that assurance.

Second, that effective yesterday, we will be scheduling an additional 200 MW of 10-minute reserve for the periods 06:00 to 20:00 Hours (EST). As you know, the IMO has the obligation to ensure that the Ontario market has sufficient reserves to satisfy reliability standards. Based on market operations to date, we've determined that we need to increase the scheduled amount of 10-minute reserve to satisfy these reliability obligations.

The third posting was the release of the latest 18 month Outlook. The report is an assessment of the adequacy of the Ontario electricity system for the 18-month period from July 2002-December 2003. The assessment is based on the IMO's forecasts of electricity demand, information from market participants on available supply of electricity and the expected configuration and capability of the transmission system.

I urge you to review the report and, as market participants, act on the messages and opportunities that it highlights.

While the report indicates that for most of the time there will be adequate supplies available within the province, there are times, particularly during peak load periods, when generation levels within Ontario are below the IMO's required planning reserve levels. However, this does not account for resources that are expected to be available from outside Ontario.

Looking to the outside is not just a forecasting or operational activity. It is also vital to our market evolution. Ontario is not an island. The Ontario market needs to be compatible with our neighbouring jurisdictions in Canada and the United States. And there is a lot going on, particularly in the United States. Congress is addressing legislation; the FERC is drafting rules on a Standard Market Design and deliberating on the formation of Regional Transmission Organizations; and NERC and NAESB – the nascent North American Energy Standards Board – are formulating how continental reliability

tandards and related business practices might be compatibly developed.

In keeping with our mandate, the IMO is at these tables. In particular, we are working with the NYISO, ISO-NE and the MidWest ISO to eliminate the seams between us today and prevent them arising in the future.

To do this is something which many of you have told us is important. You have indicated that you want us to develop locational marginal pricing, a day-ahead commitment market, and an installed capacity market. But I believe you've also recognized that there is no point in us implementing something, say a year from now, that is what our neighbours have in place today. We need to work with them to develop what these market features will look like in a year or more's time and which of them will be right for Ontario.

But most importantly we need to work with you to determine the optimum path of evolution. We need open and transparent consultation on key policy questions. We need constructive

discussion of the substantive issues. We need to do this within the policy umbrella provided by the IMO Board but before the rules related discussions at the Technical Panel.

To that end, we are enhancing our consultation process, the goals of which are:

1. To give participants and stakeholders an effective voice in the evolution of the IMO administered markets, particularly on issues with commercial and reliability impact on their business;
2. To enable the market to evolve in a timely manner, in step with the needs of participants, advancements in market technology, and the objectives of Provincial Policy, and
3. To provide advice to the IMO on relevant issues and decisions.

We are establishing a Market Advisory Council. The Market Advisory Council will be the forum for all participants and stakeholders to engage in open dialogue, with the IMO and with each other, on fundamental choices and directions for Ontario's evolving market.

The Council will be comprised of:

- One senior representative from each market participant
- Market participant representative associations
- Affiliated sector stakeholders, e.g. environmental and smaller consumer groups, and
- The Ministry of Environment & Energy and OEB will be invited as observers.

I hope you'll see the formal announcement of the Council and related consultation enhancements in the first week of July.

We have a tentative date for the first Council meeting: August 13. We will confirm the date and place asap. I really look forward to your participation.

And I look forward to your participation in the rest of today. But as we work through the day, let's try to keep in mind not only the issues arising from the first two months of the market, but also what might be appropriate for the next two months, two years and two decades.

Thank you.