

Remarks to
Ontario Energy Association

Dave Goulding
President and CEO
Independent Electricity Market Operator

October 15, 2003
Toronto, Ontario

Good Morning Ladies & Gentlemen. Always a pleasure to speak at the OEA. It's not usually wise to allow me to speak first on a panel when time is limited, however today I think it is most important that you hear the messages from Bill and Gordon, Heads of Functioning Markets that were commissioned before we took that step in Ontario.

So I will be relatively brief, set the scene, remind you of some of the issues that we face in Ontario and suggest that at this key moment in the operation of the market we need to stay the course and increase our efforts for the sake of a competitive Province of Ontario.

And this is indeed a key moment: We have a new government who will be placing some priority on the future of the electricity industry in Ontario; we have the prospect of an adequacy crunch in supply; we have had a wake-up call on August 14th that planning, operations and standards cannot be developed locally, in isolation,

in a network where the product moves at the speed of light and where operations in one area always impact across the network.

And we have the tension between environmental goals and the need to have an adequate and reliable supply of electricity.

We also need to ensure that in the future we have an operable power system since changing the mix and location of supply in fact changes the flows and limits and congestion on the grid, not only in Ontario but also to differing degrees in the systems of our neighbours. This operability includes the ability to have responsive resources, not only to produce MW but, again as August 14th demonstrated, to produce the reactive power to maintain a stable voltage profile.

You will not ensure a reliable system merely by having a MW match of supply and demand. And remember that voltage support does not travel well and is necessary close to source. This has

significant implications for the portfolio of supply that is provided in future.

I have stressed on many occasions that Ontario cannot be well served by planning and operating as an island. Interconnected operations have served us well over the years in both trade and reliability. However, it is only the rare failures that gather attention.

My peers in other ISO's and RTO's have recognized that we need to coordinate our efforts, address inconsistencies in markets and operations and carry out broader regional planning to ensure that local investments do not constrain, or become constrained by, facilities in other jurisdictions.

We have formed an ISO/RTO Council (IRC) which has very quickly become a voice to be heard in North America. Bill Museler is our first chair. A memorandum with NERC and

NAESB, who are responsible for developing international standards and business practices for application on both sides of the border has further placed us in a position of influence.

So my plea is that we do not fall into the trap of believing we can develop policies for electricity reliability and markets in complete isolation of what is being done elsewhere in this tight multi-dependent network.

For example, we cannot operate to different standards, we cannot operate without adequate inter-jurisdictional communication and we cannot operate without necessary knowledge of conditions across the interconnected network. August 14th highlighted the importance of coordination, consistently applied rules and processes and timely notifications. By extension it makes sense to address the desirability of having market structures that enhance the ability to trade and the efficiency and effectiveness of that trade.

This calls for a degree of consistency across markets. The wholesale market design in Ontario is fundamentally sound. We do not need to re-invent this wheel. We do need to move ahead, to develop and implement the tools, infrastructure and rules that will incent investment, increase predictability and manage the impact of price volatility while maintaining the necessary signals for investment and conservation.

There are several initiatives underway including examining the desirability and means of introducing a Day-Ahead Market, Locational Pricing, approaches to ensure Long Term Adequacy, amongst others.

However, as opposed to the forced march environment used to get the market open, we are now in a phase of listening to, and debating all positions of all stakeholders. This is a necessary

condition to be sure that the chosen path has maximum buy-in and exploration.

However, this cannot continue ad nauseum – otherwise we will have paralysis by analysis and frankly this will be in no one's long term interest.

It could also lead to another forced march which would not be in the direction that many of us would consider progress. A forced march where we would feel more like prisoners than willing participants.

I don't expect unanimity on the road ahead but I do believe that nothing concentrates the mind so much as the fear of imminent death, and I'm having some scary dreams lately. We must regain our momentum.

Bill and Gordon can add some value to the debate on future direction based on their experiences, both in terms of what works and the need for compatibility and regional coordination. So having said my piece, over to [Gunars].