

## **A Picture of the IESO and the Ontario Electricity Market in the Future**

Ontario Energy Association

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Notes for Remarks by

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Chair

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I am pleased to be here this morning as the new Chair of the IESO, I make it a point to attend as many of the OEA breakfasts as I can and I would like to offer congratulations to Shane on the success of these OEA forums.

I want to start by outlining a picture of the IESO and the Ontario electricity market in the future.

There are a few words that describe what I characterize as the keys to success ... what we are trying to achieve in this market and for this sector.

“Reliable, efficient, effective” describe what we are striving for; “transparent, accountable, credible and competent” describe how we can get there. Let me expand the picture of the future.

“Reliable” – Where the electricity system meets the highest standards of reliability in North America, creating confidence for consumers, investors and market participants.

An “Efficient” market - where competition encourages innovation and choice in products and services ... where electricity suppliers and consumers will manage their forward price and supply risks between one another with consumers able to have their risks managed on their behalf.

An “effective” market where investments in supply and demand are attracted.

By being “transparent and accountable”, decisions of the IESO reflect broad stakeholder and consumer engagement and are communicated publicly.

And finally, where the “credibility and competency” of the people in the IESO, in fact of all of us in the sector, will establish Ontario as a leader in international electricity markets for reliable operations.

“Reliable, efficient, effective, transparent, accountable, credible and competent”.

Now before you ask whether I am still asleep and dreaming or had something extra in my coffee this morning, let me qualify this by noting that I have not given a timetable to arrive at this destination. But nonetheless it is our intended destination.

Now let me put some markers along the road where the IESO, its Board and in fact all of us in this sector can play a part.

### **Reliability Challenges**

The IESO/IMO was created in 1999 to manage the operation of Ontario's power system, including the interactions with our neighbouring jurisdictions in Canada and the U.S. We were also entrusted with the opening and operation of the wholesale electricity market in Ontario.

We have successfully delivered on these responsibilities through some very challenging times over the past seven years. I would suggest, however, that our biggest challenges are still ahead of us.

Significant challenges to maintain reliability in the short, mid and long terms, the need to evolve the electricity market, and accelerate an increased role for conservation and demand management, are among the many issues facing us in the electricity sector.

Let me be clear. Reliability remains IESO's number one priority. We depend on an effective and efficient market in Ontario and with our neighbours. Evolving the electricity market to fully achieve the benefits of competition is also one of our priorities because it will help us deliver on our reliability mandate. And effective markets contribute to reliability as well.

**Summer of 2005**

Ontario's reliability challenges certainly rose to the surface last summer. It's a summer that the IESO doesn't want to face again this year and working with stakeholders we have taken preventive steps.

The summer was plagued by record-breaking demand combined with less than expected hydroelectric production because of the drought-like conditions in Northeastern Ontario. The result was a strained power system for much of the summer. All told, there were 12 days of public appeals and two days of province-wide five per cent voltage reductions.

The IESO purchased emergency energy in 17 hours, issued 23 emergency alerts and operated under emergency operating limits on three different days.

Supply was never interrupted last summer. The IESO didn't let the lights flicker ... as Rob McLeese – the Chair of the Toronto Board of Trade's Electricity Task Force, noted recently in the Toronto Star. Rob was quoted as saying that one of the biggest mistakes the IESO made last summer was in keeping the lights on. Rob's point of course was that there is nothing like a blackout to make people realize the severity of the supply situation, particularly in Toronto. While you may be right Rob, I trust you will be pleased to hear the IESO's number one priority is to keep the lights on.

But we cannot face another summer in which we rely so heavily on public appeals, voltage reductions, and emergency purchases to maintain reliability.

### **Short Term Reliability Measures**

The IESO has taken some steps to improve the situation in time for the summer of 2006. Our Board will soon be addressing the rules that have been developed for a Day Ahead Commitment Process which will allow imports and domestic generation to be committed a day ahead, providing more assurance of delivery when required.

The IESO is working with stakeholders to develop an Emergency Load Response Program which can be activated early enough in the sequence to reduce the need for other actions such as voltage reductions and emergency purchases. This program should be consistent with the programs offered by our neighbouring markets.

Consistency with our neighbours is imperative on so many fronts. Ontario is not an island and we cannot ignore what is happening around us. Mandatory compliance and reliability standards are becoming an increasing priority in the U.S. and we need to make sure that Ontario's interests are proactively managed and well represented in any decisions or rules that are developed. We are part of an interconnected network and we are reliant on that. That's why Dave Goulding and others at the IESO are so involved in the development of the new Electricity Reliability Organization and other reliability initiatives resulting from the 2003 Blackout.

And while we look south of the border, we also cannot forget about the electricity sector's impact on the broader social, economic and public policy objectives for this province.

**Need for Customer Education**

It's worth noting that the year 2006 is an anniversary for Ontario's electricity sector. The Hydro Electric Power Commission of Ontario was created in 1906. There is no question that the Hydro Electric Power Commission and subsequently Ontario Hydro played a major role in Ontario's development.

Ontario has been and continues to be well served by the people working in this sector. Over the past 100 years, Ontarians have seen a lot of change in many areas of the electricity sector. But as those changes have occurred, it has been necessary to outline why they are required and more importantly the benefits of implementing those changes.

And that brings me to another essential -- the need for customer education.

Customer education is critical if you are going to have customers first recognize the need, and then understand and ultimately benefit from change. This education is of particular importance when you look at the introduction of consumer based demand management tools, such as smart meters.

The smart meter is the one area where all the issues that we are all struggling with -- reliability, price, and conservation converge and arrive at the homeowner's front step in the form of an electronic box that counts how much electricity is used and when it's used.

The challenge is that consumers are concerned about the cost to implement the initiative, and are not entirely sure of the benefits they will receive. That's where

we can benefit from experience from other jurisdictions to adapt our programs here.

While many of the details of the smart meter initiative have yet to be determined, smart meters are a must-have for consumers. And it's critically important for us to demonstrate this to consumers.

There are parallels in our history that confirm this. ... In the 50's – Ontario made the transition from a 25 Hz to a 60 Hz system because it made economic sense to build an integrated, efficient system that used only one frequency. This changeover enabled the growth in jobs and production that has been the hallmark of our province's economic life for the last half-century.

This frequency standardization program was a monumental endeavour. For example, the then Hydro-Electric Power Commission converted the motors of more than seven million appliances in order to accommodate the higher frequency. More than \$350 million was spent implementing the project – that's roughly \$3 billion in today's dollars.

This effort to install smart meters in the homes of all Ontarians by the end of the decade will have a no-less profound effect on the efficiency and reliability of the system.

### **Governance**

Let me now turn to the subject of board governance and -- in particular -- the role of the IESO Board going forward.

As you know, Bill 100 resulted in a name change for the IMO to the Independent Electricity System Operator. But the legislation had more in store for the IESO than simply a name change.

It also reaffirmed our role as Ontario's reliability manager, addressing needs in real time and beyond and working closely with the Ontario Power Authority to help this new organization develop a long term system plan. As part of our reliability responsibilities, we are monitoring the progress of the inter-related generation, transmission and demand projects underway to meet future reliability requirements. Later this week, we expect to issue our first Reliability Outlook which will report on this progress and identify the necessary actions to maintain reliability in the province.

Another change arising from Bill 100 was the creation of an Independent Board of Directors – independent of market participants and with no vested interest in the outcome of IESO decisions. I am joined on this Board by an outstanding group of individuals with the utmost integrity and independent-mindedness, both key governance attributes. They include Howard Shearer who is with us today.

Dave Goulding is also with us today. As you may know, Dave has announced that he plans to retire as President and CEO of the IESO. Dave has agreed to the Board's request to stay on until the end of the year while the Board conducts a search for his successor.

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The IESO – indeed the entire electricity sector – will miss Dave’s leadership, his tenacity and his expertise. I believe that we all owe Dave a tremendous debt of gratitude for his 30 years’ of contributions to meet Ontario’s electricity needs as well as presiding over the launch and championing of the market in 2002. Fortunately, Dave has developed an outstanding team, second to none in balancing the daily needs of supply and demand.

Unlike the previous Board, we have no Directors who represent any particular stakeholder’s interest. Our job is not to run the company, operate the system or administer the market on a day to day basis.

The Board sees its responsibilities are to help provide the strategic direction for the organization, to develop policy relevant to our mandate, and ensure IESO operations adhere to those policies.

The Board also approves the Market Rules – with advice from the Technical Panel – which continues to be an important source of expertise for the Board.

We also rely on and value input from our stakeholders. I will elaborate more on that in a moment.

The Board is focused on results ... results for the IESO that benefit the entire electricity sector. And of course, we continue to focus on the broader environment in which Ontario and the IESO must perform.

As such, we are working closely with other organizations including the OPA. Given the distinct but related accountabilities of the two organizations, the two companies have been working together to address some of the issues we face.

That collaborative relationship also exists at the Board level. We have already had one joint meeting with their Board and the two Boards will meet again next week at our Clarkson facility.

### **Stakeholder Engagement**

Given the independence of our Board, it is imperative that the various stakeholders in the sector have opportunity for input into the Board's decision making process. This now occurs through our new Stakeholder Advisory Committee.

We made a fundamental shift in stakeholder engagement for the IESO and our constituents by creating a stakeholder advisory committee to the IESO Board and Executive which encourages a broad representation of stakeholders – through that committee – to provide their advice and comments directly to the IESO.

This 13-member committee meets regularly to consider and make recommendations on a number of matters relevant to both the IESO and the broader electricity sector.

Last week I had an opportunity to sit in on the Stakeholder Advisory Committee meeting when they discussed an important piece of work – a proposed vision for the market.

A vision for the market – one that is shared by stakeholders in this sector and of benefit to consumers – is fundamental to further evolution of the market.

The IESO believes that a market driven, competitive sector is the best way to provide reliable electricity for the future of the province. We see a future where the role of the market is fully realized and the need for regulated prices and investment support is at a minimum.

We are committed to evolving the current market in a steady and measured way for the benefit of all Ontarians. And if we are evolving the market for the benefit of all Ontarians, then the interests of all Ontarians must be front and centre in our decision making.

A first step is to evolve the current Hybrid model to a middle ground ... building on-ramps to the market that facilitate private contracting and depend less on the level of security that the OPA is currently providing for new generation.

In order to do that, we all must address the load side of the equation, including the default load – possibly through the creation of Load Serving Entities – so that the end use consumer is adequately represented in the market.

We all need to support the development of a forward price curve. This will require us to move ahead on the development and implementation of a well-designed day ahead market and the utilization of a forwards market on which standard forward contracts can be publicly traded. The current auction being conducted by the OPA is an initial step in that direction.

We are committed to working with the OPA, the OEB, the government and others to improve this sector's efficiency and effectiveness through the development of forward contracts, with a day ahead market for all to use, with

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the spot market for balancing, and ensuring that the most effective and efficient resources operate.

There have been stops and starts since this market opened almost four years ago. Our challenge .. and one that applies to all of us in this sector ... is to use this particular opportunity to plan for the on-ramps that will carry us forward, that will keep Ontario apace with current and future change. We have a window in time right now to improve our present electricity system, to make the market work better in the future and to define, develop and test drive if you will -- our next steps.

When the opportunity arises – and I believe it will arise – to move the market forward, we must be ready.

But first we need to make sure that the conditions are right and our steps well measured along the way. The availability of supply, demand response capability, customer education programs, forward contracting arrangements, these are the elements that should be working in our favour as we take each step.

I invite you, as well as our Stakeholder Advisory Committee and others, to help us design and implement our strategic directions.

### **Conclusion**

Let me make a few final comments before I conclude.

If we think back to the Ontario Hydro days, the running of our electricity system was something that was managed in the background. For the most part, people just didn't think about what it took to keep the lights on. And few people asked questions.

Today – our system is transparent, open and invites public debate about the key issues we face. And while to many this is a sign of turmoil – to me it's a sign of strength.

Given the importance of our electricity infrastructure to our daily lives – we have to involve the broader public and we have to be accountable.

The challenges that I have outlined today are not new, nor do they represent a complete set of all the issues that we are facing.

As recent news reports highlight, there are reliability concerns in Toronto that must be dealt with in a very short time frame. There are also concerns in the western part of the GTA, substantial concerns with the current approvals process and of course the government's coal replacement objective represent a significant commitment for all of us.

Ontarians are counting on us to address these challenges in a coordinated and coherent fashion.

The government cannot do this alone, the IESO cannot do it alone, nor can the OPA or any other entity in this sector. These are mutual challenges we face and it

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requires a coordinated approach, enormous effort, and continuous communications as changes occur.

From the perspective of the IESO Board, let me assure you that we intend to take an active role ... providing independent advice, developing and putting forward the necessary plans and action to ensure ongoing reliability without losing sight of the end state ... a market based competitive electricity sector – reliable, efficient, and effective for Ontarians.

Thank for your time and attention I invite your suggestions, comments and questions.