



## **THE CHALLENGES AHEAD FOR THE WHOLESALE MARKET**

### **KEYNOTE SPEECH BY**

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**PRESENTED AT TORONTO BOARD OF TRADE  
POWER BREAKFAST  
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GOOD MORNING. THANKS VERY MUCH. IT'S GOOD TO BE HERE YET AGAIN. I THINK THIS MUST BE THE 5<sup>TH</sup> POWER BREAKFAST AT WHICH I HAVE SPOKEN – MUST BE A RECORD. I EXPECT YOU WILL KEEP ASKING ME ALONG UNTIL I SAY WHAT YOU WANT TO HEAR – MAYBE I'LL GET THE MESSAGE ONE OF THESE DAYS.

ACTUALLY HAVING JUST RETURNED FROM A VACATION, I DIDN'T GET AROUND TO PREPARING ANY NOTES UNTIL LATE YESTERDAY SO I HAD THOUGHT THAT I MIGHT STRING TOGETHER THE HIGHLIGHTS FROM MY PAST SPEECHES – BUT THEN WHAT WOULD I DO FOR THE REMAINING 29 MINUTES?

THE LAST TIME I SPOKE HERE WAS ABOUT ONE YEAR AGO AS WE WERE ENTERING THE FINAL RUN UP TO MARKET OPENING. IN RESPONSE TO ONE QUESTION I NOTED THAT I ONLY HAD TWO FEARS, ONE THAT WE DID NOT GET THE MARKET OPEN AND ONE THAT WE DID. AM I THE DELPHIC ORACLE OR WHAT?

I MUST SAY UP FRONT THAT ON MY RETURN A COUPLE OF DAYS AGO I WAS VERY ENCOURAGED TO READ THE ANNOUNCEMENTS THAT THE WHOLESALE MARKET IS NOT ONLY STILL ALIVE BUT THAT THE GOVERNMENT HAS RECOGNIZED ITS VALUE AND IS COMMITTED TO MOVING IT FORWARD. HOPEFULLY WE ARE NOW SEEING COSMETICS AS OPPOSED TO THE MAJOR SURGERY CARRIED OUT LAST NOVEMBER. THE PATIENT HAS SURVIVED, NOW WE HAVE TO LOOK GOOD.

THERE ARE STILL THOSE WHO HAVE PROMOTED AND CONTINUE TO PROMOTE A RETURN TO THE OLD MONOPOLY. IT BRINGS TO MIND WHAT USED TO BE CALLED THE \$3,000 CURE – I SUPPOSE IT WOULD BE AT LEAST \$30,000 BY NOW. THIS WAS BROUGHT TO MY ATTENTION 25 YEARS AGO WHEN ALONG WITH A NUMBER OF COLLEAGUES I DECIDED TO TAKE THE PLUNGE AND EMIGRATE TO CANADA. I WAS TOLD THAT, IN TIME, I MIGHT THINK I MADE THE WRONG MOVE AND WOULD BE TEMPTED TO RETURN. RATHER THAN BURN BRIDGES, I WAS TOLD THAT IF THIS SITUATION AROSE I SHOULD TAKE A LEAVE OF ABSENCE,

CROSS THE ATLANTIC, AND SURELY COME TO RECALL WHY I HAD LEFT IN THE FIRST PLACE.

THE POINT IS THAT MEMORIES ARE GENERALLY ROSIER THAN FACTS, DON'T LOCK YOURSELF BACK IN THE OLD MONOPOLY JUST BECAUSE YOU'VE FORGOTTEN THE FLAWS.

IN FACT, ONE OF OUR GROUP DID RETURN TO THE U.K. AND SUBSEQUENTLY DISCOVERED THE ERROR OF THEIR WAYS AND CAME BACK. OF COURSE I CAN RETAIN A CONFIDENCE – EVEN WHEN A DART IS THROWN AT ME – SO I WON'T TELL YOU WHO THAT WAS. YOUR SECRET IS SAFE WITH ME ANDY!

I WOULD LIKE TO TOUCH ON SOME OF THE RECENT EVENTS AND MAKE SOME OBSERVATIONS REGARDING MARKET PERFORMANCE, BUT I WOULD ALSO LIKE TO TAKE THE OPPORTUNITY TO LOOK AHEAD – SEVERAL YEARS – TO INDICATE WHY WE NEED TO START THE DEBATE AROUND LONG-TERM ADEQUACY AND RELIABILITY OF ELECTRICITY SUPPLY IN ONTARIO AND POINT OUT SOME OF THE KEY ITEMS FOR THAT DEBATE.

## **OPENING THE MARKET**

LET ME START WITH THE OPENING OF THE MARKET ALMOST ELEVEN MONTHS AGO. AS SOME OF YOU WILL HAVE HEARD ME SAY BEFORE, OPENING THE WHOLESALE MARKET WAS NOT ONLY THE RIGHT THING TO DO ... BUT THAT IT HAS BEEN A SUCCESS.

CERTAINLY PRICES HAVE BEEN HIGHER THAN WE WERE USED TO IN THE PAST FEW YEARS. BUT AFTER A TEN-YEAR PRICE FREEZE, WITH THE TRUE COSTS BEING SUBSIDIZED BY TRANSFER TO THE PUBLIC DEBT THAT SHOULD NOT HAVE COME AS ANY SURPRISE, ALTHOUGH FRANKLY WE DID NOT DO A GOOD JOB OF MANAGING EXPECTATIONS.

WHILE 4.3 CENTS MAY HAVE BEEN CLOSE TO POWER AT COST TEN YEARS AGO, IT IS NOT REASONABLE TO THINK THAT IS APPROPRIATE TODAY. ELECTRICITY IS BOTH AN UNDERRATED AND AN UNDERVALUED RESOURCE TODAY BUT BOY WOULD WE MISS IT IF IT WERE NOT THERE. PERHAPS ONLY WATER SURPASSES ELECTRICITY IN THAT CATEGORY AND IN THE WAY WE WASTE IT.

WE NEED TO BE PREPARED TO PAY FOR ELECTRICITY WHAT THE TRUE VALUE IS AND WE NEED TO STOP TREATING IT AS IF WERE AN INEXHAUSTIBLE PRODUCT. IF WE DO NOT WE WILL REINFORCE A SCENARIO OF HIGH COSTS AND DEFICIENT SUPPLY.

THE MARKET CAN HELP FOSTER THE UNDERSTANDING OF VALUE AND WASTE. YES, AS I HAVE SAID, PRICES HAVE BEEN HIGHER THAN SOME WOULD HAVE LIKED – THIS IS AN AXIOM REALLY. BUT IN JUST A FEW SHORT MONTHS AFTER THE MARKET WAS OPENED, THOSE MARKET CONDITIONS ALSO MEANT THE DIFFERENCE BETWEEN A RELIABLE SUPPLY AND ROTATING LOAD CUTS, SOMETHING UNFAMILIAR TO US IN THIS PROVINCE.

IT WAS CLOSE. AND THERE WERE SOME DAYS WHEN WE WALKED THE TIGHTROPE.

### **ENHANCED RELIABILITY**

BUT IN THE END, ALTHOUGH IMO STAFF, SUPPLIERS AND TRANSMITTERS HAD SOME CHALLENGING DAYS, WE WERE ABLE TO KEEP THE LIGHTS ON. MAINLY THANKS TO TWO THINGS ... ONE WAS THE PRACTICES OF LARGE WHOLESALE CUSTOMERS WHO SHIFTED THEIR OPERATIONS AND LOAD IN RESPONSE TO HIGHER PRICES, REDUCING DEMAND DURING PEAK DEMAND PERIODS. THE SECOND FACTOR WAS THE ABILITY OF THE MARKET TO ATTRACT GENERATION FROM OUTSIDE ONTARIO.

SOME LARGE CUSTOMERS INFORMED US OF LOAD SHIFTING  
TOTALLING IN EXCESS OF 300 MEGAWATTS DURING SOME OF THE HIGH  
PRICE TIMES WHICH WERE ALSO THE TIGHTEST SUPPLY/DEMAND  
TIMES. IN ADDITION, THE MARKET ATTRACTED RECORD LEVELS OF  
IMPORTS, MORE THAN 1,000 MEGAWATTS HIGHER THAN THE PREVIOUS  
SUMMER – MAXIMIZING THE USE OF INTERCONNECTIONS. GOOD NEWS  
AND BAD NEWS. IF WE HAD NEEDED MORE AND IF IT WERE AVAILABLE,  
WE COULDN'T HAVE DELIVERED IT. WE NEED MORE  
INTERCONNECTIONS.

WE CALCULATED THAT WITHOUT THE PRICE RESPONSIVENESS OF THE  
MARKET LAST SUMMER, WE WOULD HAVE ADDED ABOUT 600  
MEGAWATTS TO THE LOAD, WHICH LAST SUMMER MIGHT HAVE FORCED  
LOAD CUTS TO KEEP THE SYSTEM SECURE AND INTACT.

SO THE MARKET WORKED THE WAY THAT IT WAS SUPPOSED TO. AND  
I'M CONFIDENT THAT IF THE SAME CONDITIONS EXIST AGAIN THIS  
SUMMER – AND I WILL TOUCH ON THAT SCENARIO IN A MOMENT – THEN  
THE MARKET WILL AGAIN RESPOND.

## **KEEPING THE MARKET OPEN**

AS YOU KNOW, THE PROVINCIAL GOVERNMENT HAS SPENT THE PAST THREE MONTHS MEETING WITH A NUMBER OF STAKEHOLDERS IN A CONSULTATION PROGRAM ON WHAT TO DO WITH THE REST OF THE MARKET.

I HAD EVERY INTENTION OF COMING HERE THIS MORNING TO STRESS THE IMPORTANCE OF KEEPING PRICE RESPONSIVENESS IN THE MARKET – NOT JUST FOR RELIABILITY WHICH I HAVE TALKED ABOUT ALREADY – BUT TO ENCOURAGE NEEDED INVESTMENT IN ONTARIO'S ELECTRICITY SECTOR. BUT I DON'T HAVE THE SAME NEED, THANKS TO THE PROVINCIAL GOVERNMENT DECISION LAST WEEK TO KEEP APPROXIMATELY FIFTY PER CENT OF THE LOAD IN THE WHOLESALE MARKET. NOW WE HAVE TO WORK TOWARDS GETTING THOSE CUSTOMERS WHO HAVE A TEMPORARY FREEZE ON PRICE TO RECOGNIZE THE VALUE OF BEING RESPONSIVE AND TO WORK ON AN EXIT STRATEGY.

THE GOVERNMENT DECISION MAKES SENSE ON A NUMBER OF FRONTS. FIRST IT KEEPS THE MARKET VIABLE AND CAPABLE OF PROVIDING THE BENEFITS I HAVE JUST TALKED ABOUT. AND SECOND THIS DECISION MEANS THAT ONTARIO IS IN A SIMILAR SITUATION TO OTHER JURISDICTIONS WHERE THE MARKET WAS INTRODUCED IN SUCCESSIVE STAGES BEGINNING WITH THE WHOLESALE CUSTOMER. THE SAME CAN

NOW OCCUR IN ONTARIO. IN FACT, AT THE WHOLESALE LEVEL THERE IS LITTLE CHANGE SINCE LDC'S WERE ALREADY PRICE TAKERS.

I DO UNDERSTAND THE FRUSTRATION OF LOW-VOLUME CUSTOMERS LAST SUMMER AND THEIR INABILITY TO DEAL WITH RISING HYDRO BILLS MUCH OF IT BY THE WAY DUE TO THE HIGH USE OF AIR CONDITIONERS DURING ONE OF THE HOTTEST SUMMERS ON RECORD. I THINK ALL OF US IN THE MARKET SHOULD HAVE DONE A BETTER JOB IN EDUCATING CUSTOMERS ABOUT THE MARKET, WHAT THEY COULD EXPECT AND HOW THEY COULD DEAL WITH IT.

THIS EDUCATION SHOULD HAVE STARTED WAY BEFORE THE MARKET OPENED, AS SHOULD THE MANAGEMENT OF REALISTIC EXPECTATIONS.

AND AS WE GO FORWARD, IF THE MARKET IS GOING TO SUCCEED AND IT MUST, WE ARE ALL GOING TO HAVE TO COMMUNICATE THE BENEFITS OF A RESTRUCTURED MARKET NOT JUST IN THE SHORT TERM BUT OVER TIME TO A BROADER RANGE OF CUSTOMERS AND TO HELP GET A RECOGNITION OF VALUE AND A CHANGE IN BEHAVIOURS.

WE CAN START WITH THE CUSTOMERS WHO ARE STAYING IN THE MARKET AS A RESULT OF LAST WEEK'S GOVERNMENT DECISION.

CUSTOMERS WITH CONSUMPTION OVER 250,000 KWH ARE LARGELY IN A BUSINESS OR INDUSTRIAL SECTOR AND IN MANY INSTANCES ELECTRICITY IS PAID FOR WITH PRE-TAX DOLLARS. THESE CUSTOMERS GENERALLY HAVE A HIGHER FOCUS ON THEIR ELECTRICITY COSTS GIVEN THEIR HIGHER CONSUMPTION AND IN GENERAL THEY HAVE A GREATER ABILITY TO DEAL WITH OPTIONS TO REDUCE THOSE COSTS.

OPTIONS TO MANAGE THOSE COSTS INCLUDE INCREASED ENERGY EFFICIENT EFFORTS, INTERVAL METERING, SHIFTING OF LOAD TO OFF-PEAK HOURS, LONG-TERM CONTRACTS FOR SUPPLY, AND ON-SITE GENERATION.

THE IMO IS PREPARED TO PROVIDE EDUCATION AND TRAINING TO ASSIST THE OVER 250,000 KWH CUSTOMERS IN REALIZING THE BENEFITS OF THE MARKET.

WE DID THIS WITH REGISTERED MARKET PARTICIPANTS PRIOR TO THE OPENING OF THE MARKET LAST YEAR AND WE ARE PREPARED TO WORK WITH ASSOCIATIONS AND GROUPS TO PROVIDE TRAINING TO OTHER LARGE CUSTOMERS TO HELP THEM BETTER UNDERSTAND THE MARKET AND HOW TO MAKE IT WORK FOR THEM. FURTHERMORE, I HAVE COMMITTED TO WORK WITH PARTICIPANTS AND WITH

ASSOCIATIONS SUCH AS IPPSO, AMPCO, EDA AND OEA IN PUSHING THE EVOLUTION OF THE MARKET.

## **FUTURE RELIABILITY**

EARLIER THIS WEEK, THE IMO RELEASED ITS 18-MONTH ASSESSMENT OF THE RELIABILITY OF THE ONTARIO ELECTRICITY SYSTEM. NEXT WEEK, WE WILL BE RELEASING OUR TEN-YEAR ASSESSMENT.

I WANT TO SPEND THE REST OF MY TIME HERE THIS MORNING LOOKING AT THE FUTURE CHALLENGES WE FACE IN ORDER TO FACILITATE A RELIABLE POWER SYSTEM IN ONTARIO.

LET ME START WITH THE 18-MONTH OUTLOOK. THERE IS NO QUESTION THAT THE RELIABILITY PICTURE FOR THE NEXT YEAR-AND-A-HALF CAN BE MADE MUCH BRIGHTER WITH THE RETURN TO SERVICE OF THREE NUCLEAR UNITS ... ONE AT PICKERING AND TWO AT BRUCE.

I AM ENCOURAGED BY SOME OF THE NEWS I AM RECEIVING. WE HAVE BEEN ADVISED THAT THE BRUCE A UNITS 4 AND 3 ARE EXPECTED TO BE GENERATING ELECTRICITY BY THE ENDS OF APRIL AND JUNE RESPECTIVELY. THE KEY ACTIVITY MILESTONES ARE BEING MET AND BRUCE POWER IS CONFIDENT THE DATES CAN BE MET.

THE FIRST UNIT AT PICKERING A IS ALSO SCHEDULED TO BEGIN PRODUCING ELECTRICITY BY THE END OF JUNE. IF PRODUCTION AT ALL THREE UNITS MATERIALIZES, THEN WE SHOULD BE IN MUCH BETTER SHAPE THAN LAST YEAR.

IF THESE UNITS ARE DELAYED HOWEVER, WE WILL BE FORCED TO LIMIT PLANNED OUTAGES AND RELY ONCE AGAIN ON OUR NEIGHBOURS FOR SUPPORT. SIMILARLY, IF WE HAVE AN ONSET OF SEVERE, HOT WEATHER IN MAY AND JUNE BEFORE ALL THESE UNITS BECOME AVAILABLE, WE WILL HAVE TO SEEK ASSISTANCE VIA SUPPLY FROM OUTSIDE THE PROVINCE.

LOOKING FURTHER OUT TO THE FUTURE, SAY 15 YEARS AND BEYOND, I BELIEVE THERE ARE SOME MAJOR POLICY ISSUES TO BE ADDRESSED. PERHAPS WE DO NOT NEED THE ANSWERS TODAY BUT LEAD TIMES SUGGEST THAT THE DEBATE CANNOT BE LONG DELAYED. FOR EXAMPLE, OUR CURRENT LONGER TERM FORECASTS OF ADEQUACY ARE PREMISED ON A POLICY THAT ONTARIO BE SELF-SUFFICIENT IN TERMS OF ELECTRICITY SUPPLY. PERHAPS THAT IS AN APPROPRIATE BASIS FOR OUR ASSESSMENTS, HOWEVER I MAKE NO APOLOGIES FOR THE FACT THAT I BELIEVE A BROAD REGIONAL MARKET FOR ELECTRICITY, WITH STRONG INTERCONNECTING CIRCUITS IS A MORE

ROBUST DESIGN TO ACCOMMODATE THE HOURLY, DAILY, SEASONAL AND LONGER TERM VARIATIONS THAT OCCUR WITHIN AND BETWEEN JURISDICTIONS DUE TO GEOGRAPHY, WEATHER, INVESTMENT CYCLE AND OTHER DIFFERENCES. IN ANY EVENT, WHILE ONE MIGHT BUILD THE GENERATORS AND TRANSMISSION LINES IN ONTARIO, WE WOULD STILL NEED TO DEPEND ON OUTSIDE SOURCES FOR MUCH OF THE FUEL, BE IT GAS, COAL OR OIL. THUS WE CANNOT BE TOTALLY SELF-SUFFICIENT. CAPACITY IS NO GOOD WITHOUT ENERGY.

ANOTHER KEY POLICY DECISION HAS TO RELATE TO THE TYPE OF SUPPLY THAT IS APPROPRIATE FOR LONGER TERM ELECTRICITY SUFFICIENCY. I HAVE SAID RECENTLY THAT IN 15 YEARS OR SO IN THE ORDER OF 15,000 MW OF NEW OR TO SOME EXTENT REFURBISHED GENERATION WILL BE NEEDED AS CURRENT GENERATORS APPROACH THE END OF PLANNED LIFE. FURTHERMORE, ANY REFURBISHMENT CAN BE CONTINGENT ON OTHER CONSIDERATIONS, ENVIRONMENTAL FOR EXAMPLE. HOW MUCH DARE WE RELY ON UNPROVEN TECHNOLOGIES? TO WHAT EXTENT CAN WE REALISTICALLY EXPECT DEMAND MANAGEMENT TO CONTRIBUTE? WHAT ROLE WILL DISTRIBUTED GENERATION AND WINDMILLS PLAY? HOW MUCH OF OUR RELIANCE SHOULD BE PLACED ON GAS?

CLEARLY EACH OF THESE SOURCES HAS A ROLE TO PLAY, HOWEVER THE EXTENT OF THE NEED IS GREAT AND LEAD TIMES FOR SOME OPTIONS SUCH AS NEW NUCLEAR (AND YES, I BELIEVE WE ARE GOING TO HAVE TO FACE THAT QUESTION SOONER RATHER THAN LATER) ARE SIGNIFICANT, PARTICULARLY WHEN ONE RECOGNIZES THAT THE UP FRONT DEBATE REGARDING NUCLEAR WILL NO DOUBT TAKE CONSIDERABLE TIME, BEFORE ANY FIRM PROPOSAL IS MADE AND WELL BEFORE A SPADE HITS THE GROUND.

WE WILL BE RELEASING OUR LATEST 10 YEAR ASSESSMENT OF THE ADEQUACY OF THE SUPPLY AND TRANSMISSION PICTURE NEXT WEEK.

IT WILL COME AS NO SURPRISE TO THOSE OF YOU IN THIS BUSINESS THAT FROM A SUPPLY PERSPECTIVE, THE CRITICAL FACTOR IS WHEN, AND HOW MANY GENERATORS ARE RETURNED TO SERVICE AT THE PICKERING A AND BRUCE A PLANTS. DEPENDING UPON THE ANSWER TO THAT QUESTION AND THE EXTENT TO WHICH GENERATION SUCH AS LAKEVIEW IS RETIRED, WE MAY SEE AN ADEQUATE ALBEIT NOT OVER ABUNDANT SUPPLY CAPABILITY UNTIL TOWARDS THE END OF THIS DECADE OR THE NEED DATE COULD BE SIGNIFICANTLY EARLIER.

HOPEFULLY, THIS HAS GIVEN YOU AN INCENTIVE TO READ THE REPORT WHEN IT IS RELEASED. IT WILL BE ON OUR WEB SITE.

WE CARRY OUT COMPREHENSIVE STUDIES OF THE ADEQUACY OF THE TRANSMISSION SYSTEM, FOR EXAMPLE LAST YEAR WE IDENTIFIED A NEED FOR REINFORCEMENT IN TORONTO. THIS YEAR YOU WILL SEE PLANS BEING PUT INTO PLACE TO SATISFY THIS NEED.

AS YOU KNOW, LAKEVIEW GENERATING STATION IS SCHEDULED TO STOP BURNING COAL AS A GENERATING SOURCE IN ABOUT TWO YEARS TIME. IF A DECISION IS MADE TO SHUT LAKEVIEW DOWN IN APRIL 2005, A NUMBER OF TRANSMISSION INFRASTRUCTURE ADDITIONS AS WELL AS ADDITIONAL REACTIVE SUPPLY CAPABILITY TO SUPPORT AREA VOLTAGES WILL BE REQUIRED TO MAINTAIN THE LEVEL OF RELIABILITY WE EXPECT TO HAVE IN TORONTO.

GIVEN THE SHORT LEAD TIME, PLANS ARE BEING DEVELOPED AND DECISIONS ARE BEING MADE ... BOTH IN TERMS OF THE FUTURE OF LAKEVIEW AND THE NECESSARY TRANSMISSION ADDITIONS.

WE ARE ALSO SEEING HIGH LOAD GROWTH IN MUNICIPALITIES AROUND TORONTO ... NEWMARKET, AURORA, RICHMOND HILL, AND MARKHAM TO NAME JUST A FEW. AS A RESULT THERE IS AN EARLY NEED TO INCREASE THE SUPPLY CAPABILITY TO THESE AREAS. WE ARE LOOKING AT TRANSMISSION REINFORCEMENTS BEING PLACED IN

SERVICE WITHIN THE NEXT COUPLE OF YEARS TO MAINTAIN A RELIABLE SUPPLY OF ELECTRICITY TO THESE COMMUNITIES.

THESE ISSUES ARE MORE FULLY EXPLORED IN THE 10-YEAR OUTLOOK WHICH I HAVE NOTED WE WILL BE RELEASING EARLY NEXT WEEK.

## **CLOSING**

IN CLOSING, LET ME JUST STRESS THAT I BELIEVE THAT THE MARKET CAN DELIVER, I BELIEVE THAT WE NEED TO CONTINUE TO DEVELOP THE RULES AND ROLES AND INFRASTRUCTURE, I BELIEVE THAT GENERATION, DEMAND MANAGEMENT AND TRANSMISSION ADDITIONS ARE NEEDED. I BELIEVE THAT WE NEED AN EXIT STRATEGY FROM THE CURRENT PRICE FREEZE. THAT THERE IS A NEED TO FOCUS POLICY DEBATE ON THE LONGER TERM WELL-BEING AND SECURITY OF SUPPLY AND THAT AS WE TACKLE THE SHORT-TERM ISSUES WE NEED TO DO THAT CONSISTENT WITH KEEPING AN EYE ON THE LONGER TERM NEED.

THANK YOU.