

Notes for Remarks for Derek Cowbourne  
Broadening the Responsibilities of the IMO  
Hydro Ottawa Conference  
Powering the Future 2004  
November 16, 2004

## **Introduction**

Thanks very much for that kind introduction.

I am pleased to be able to represent the IMO here today. This conference comes at a very opportune time given the expected implementation of Bill 100 early in the New Year.

While we will fully support the government in the implementation of the Bill, it will have a number of impacts on organizations like the IMO. Today, I want to touch on the IMO's approach going forward. But over and above that, I am hoping to help you address some of the changes that will affect you and let you know what the IMO is doing to help you better manage your electricity costs.

But before I begin, first let me congratulate Hydro Ottawa for putting this conference together. Not only does the timing work but in putting this conference together, Hydro Ottawa has brought together a number of major customers, who are important not only to Hydro Ottawa, but also to the IMO, to discuss some of the issues we are all facing.

As you may know, Hydro Ottawa is the third largest Local Distribution Company in Ontario, representing about five per cent of Ontario's demand.

Hydro Ottawa's Key Accounts account for about 35 per cent of its load so your operations have a major impact on the IMO-administered grid.

The IMO has recently filed its business plan with the Ontario Energy Board. This Business Plan for 2005-2007 addresses some of the issues that we will face in our transition under Bill 100. The Business Plan has been posted on our web site ... [www.theIMO.com](http://www.theIMO.com) and I would encourage all of you to access it.

I want to touch on some of those challenges that we will face in the next three years and outline our objectives as we work with others in the sector to deliver a reliable supply of electricity to you and the rest of Ontario's electricity customers for years to come.

### **Bill 100**

Let me start with some comments on Bill 100, which is currently before the legislature. While there is a proposed name change for us to the Independent Electricity System Operator, or Ontario's IESO, as we will be more commonly known, our core accountabilities are retained. In fact, in many respects, our role in today's electricity sector will be enhanced.

Our primary responsibilities around system and market operations will continue, as will our independence from market participants. And we will continue to evolve the wholesale market. But we can also play a role in meeting some of the new responsibilities that are contained under Bill 100.

This will all be managed within our current fee, a fee that we have maintained for the past three years.

Those new responsibilities I am referring to are being created through Bill 100, responsibilities that will have to be assumed in the most cost-effective way possible. The major one of course is the need to ensure an adequate and reliable electricity system. That responsibility does not exist today ... it disappeared with the old Ontario Hydro.

Bill 100 will create a new entity ... the Ontario Power Authority with a governance structure similar to the IESO's. The OPA will have that responsibility of ensuring there is an adequate and reliable supply of electricity.

As part of that responsibility, the OPA will develop an integrated system plan for Ontario. This plan will assist in meeting the province's need for adequacy and reliability of supply, including alternative and renewable generation, demand management and conservation.

The OPA's procurement responsibilities for both generation and demand-side services are only to be undertaken as a last resort ... once it has made an assessment, in consultation with the IESO and the OEB, about the ability of the market to meet the needs for new supply and demand side resources. Very clearly the market is intended to be the primary mechanism for attracting new resources and the intention is to keep the OPA procurement contracts as a last resort.

Going forward, the IESO will continue to be responsible for real time operation and short-term forecasting. The responsibilities for longer term forecasting and, in the final analysis, long term system adequacy will rest with the OPA.

These two responsibilities overlap and close coordination will be necessary between the IESO and OPA. We will need to work closely together and operate seamlessly. But there may also be an opportunity for the OPA to leverage the expertise that exists in the IMO to maximize efficiencies.

The OPA will have the ability to delegate some of its responsibilities to another organization, such as the IESO. Given the need to minimize costs and no doubt there will be a desire to limit the size of the OPA, there may be an opportunity for the IESO to provide services to the OPA in the areas where we have expertise. This can contribute to the effectiveness of the new structure, and limit the need for new resources.

For example, each year, the IMO produces a 10-year Outlook, which has served as a planning tool for the industry. We will no doubt be discussing with the OPA the best way to leverage the expertise used in preparing this document in areas such as forecasting electricity needs and power system assessment.

There is one other change with respect to Bill 100 that will affect us. The three-member Market Surveillance Panel will now report to the OEB rather than the IMO's Board of Directors. Again in an effort to maximize efficiencies, we are developing arrangements with the OEB to have the IMO's Market Assessment and Compliance Unit continue providing support to the MSP, while at the same time continuing their support of the IMO's daily review of market operations. These arrangement would serve all three entities well ... the OEB, the IESO and the MSP ... while furthering the objective of providing fair and comprehensive oversight of the wholesale market.

## **Market Evolution**

When you read our business plan, you will note that another priority for us is to continue to address customer expectations to enhance the wholesale market. Continued market evolution through the development of mechanisms such as the Day Ahead Market and the Resource Adequacy Market will help reinforce an efficient and reliable power system.

Ontario's electricity system now operates on a real time basis. Generators are asked to produce and customers consume electricity on a real-time basis. We are in the unique position of being in an industry where your product is consumed the instant it is produced.

While the "just in time" approach has worked well to maintain reliability, this system needs to evolve further to provide a greater level of price stability and supply security.

That's why we are focussed on the development of both a Day Ahead Market and a Resource Adequacy Market. These markets would establish a more comprehensive approach to managing Ontario's power system. The development and implementation of these markets would allow consumers and generators to better anticipate and respond to demand requirements in the short term and encourage new supply in the long term.

Let me talk about the Day Ahead Market first.

## **The Day Ahead Market**

A Day Ahead Market has worked well in many of our neighbouring jurisdictions and we believe it will provide a number of benefits to Ontario.

These benefits include:

- Greater operational security ahead of real time operations for both suppliers and consumers;
- Increased demand side response which would promote greater resource adequacy in the IMO-administered markets;
- Price certainty in advance of real time dispatch;

A day ahead market will allow major customers, such as yourselves, to lock-in prices ahead of time, reducing your exposure to the price volatility that a spot market can bring. It will allow you to better anticipate prices one day ahead, perhaps lower your consumption and therefore your bill, when prices are high. Simply put: price and volume certainty.

Through a day-ahead financial commitment, this market would assure that sufficient resources are on line in real time for inclusion in the market.

Implementing a day-ahead market in Ontario would also put us on the same footing as our neighbours, facilitating efficient and reliable trade with them.

The Day Ahead Market is basically an auction where the prices and quantities for energy and operating reserve are established for each hour of the next day.

Generators or suppliers submit offers to supply energy at certain prices and

customers bid to purchase energy. These offers and bids are used to determine the market clearing price ... 24 hours in advance.

The development of the Day Ahead Market is a priority for the IMO. The Day Ahead Market would be the primary market for electricity transactions in Ontario, with the Real Time Market assuming its more effective role as a balancing market.

The detailed design of the DAM is scheduled for completion by the end of January. Our next step would be to build and test the market systems and processes. Implementation is targeted for the latter part of 2006.

### **Resource Adequacy Market**

Let me now turn to the Resource Adequacy Market initiative. If implemented, this market or RAM as we refer to it, will address long term commitments for power generation and demand over the coming decades.

It would help facilitate investment in the electricity sector and also complement the responsibilities of the OPA as the buyer of last resort. For example, when sufficient generation or demand side resources are assured through the RAM, the OPA will not have to enter into government backed contracts.

Also taking the form of an auction, the RAM would procure specified levels of resources and require the participation of those resources in the Day Ahead Market. Prior to the auction, the required resource mix and regional requirements would be identified.

Successful bidders in the auction would then have the financial assurances that investors require and a revenue stream that will help them address their capital costs, and provide the basis for negotiating less expensive energy contracts with customers directly.

As we look over the next 10-15 years, new generation and demand side measures are urgently needed to address the expected gap between supply and demand. The Minister of Energy has estimated that an investment of between \$25 and \$40 billion is needed in Ontario's energy sector over that time.

The government RFP processes that are underway have been necessary to kick-start the needed generation investment. But I don't believe we can continue to rely on that process.

At the IMO, we believe that a Resource Adequacy auction will help stimulate that needed investment, while protecting customers from the risk of high-priced long term contracts.

We are currently in the final stages of consultation with a number of stakeholders on the design of the RAM with the objective of having a well thought out proposal and transition plan for consideration by our incoming Board early in the New Year.

This would allow an implementation on relatively short notice ... perhaps in the second half of next year.

## Conservation/Demand Response

New generation is only one of the keys to ensuring a future reliable supply of electricity. There is a lot customers can do ... actions that will not only help address our overall system needs but also help their financial bottom line. Those actions include conservation efforts, demand response initiatives and increased energy management.

As you heard from Donna Cansfield, the Parliamentary Assistant to the Minister of Energy and head of the Conservation Action Team, the provincial government has embarked on a major effort to create a conservation culture in Ontario and the IMO is keen to support that initiative.

But one of the key barriers we have found is that consumers don't have the information, tools or the infrastructure to be able to offer demand response into the market.

That's why we have introduced the Transitional Demand Response Program – or TDRP – which supports investments in new technologies to help companies overcome barriers to price responsiveness.

The TDRP is intended to kick start demand response capability by compensating participants for reducing demand based on pre-dispatch price signals.

The program is targeting 100 MW of demand response, or enough electricity to meet the needs of a city the size of Kingston.

Participants in the TDRP will be required to notify the IMO at least two hours prior to the start of an eligible TDRP trading hour ... or an hour when the three hour ahead pre-dispatch price reaches \$120 a MWH. In return, participants can receive the higher of Market Clearing Price or the pre-dispatch price up to a maximum of \$500 a MWH for their demand reduction. It is our hope that at the conclusion of the TDRP, market mechanisms, and the implementation of a Day-Ahead Market in particular, will encourage ongoing price responsiveness.

In order to allow different market sectors to gain experience with demand response, the IMO has established targets for different sectors comprised of 40 per cent industrial, 30 per cent commercial and 30 per cent residential demand response.

The deadline for the second round of TDRP applications is December 1.

The IMO has a booth here at the trade show and our representatives there would be happy to answer any questions you may have about the TDRP or any other IMO initiative. And on this slide are our contact details.

### **Customer Education**

With respect to the need for information, the IMO has embarked on a customer education effort to promote awareness and action among larger customers to help them better manage their electricity costs.

While the majority of customers in Ontario will be eligible for a fixed rate, between 40,000 to 60,000 customers are still paying the market price for electricity or have signed with retailers or generators. While small in number

compared to the four million plus low volume consumers, these customers represent approximately 55 per cent of the total load in Ontario.

Many and perhaps most of these customers have a limited knowledge of the way the electricity market works, or even more important, how the market can work for them.

We are working with LDCs like Hydro Ottawa and trade associations to reach these Key Account customers to give them the information and tools they need to better manage their electricity costs.

We believe that a better educated and engaged group of customers will:

- Improve reliability by triggering a higher level of demand response;
- Strengthen the wholesale market;
- Deliver environmental benefits;
- Increase economic competitiveness;
- And most importantly for individual customers, save themselves money.

## **Conclusion**

In conclusion, let me leave you with a few points.

While Bill 100 will present more change for all of us, I believe the hybrid model the government has adopted will address many of the issues that have surfaced in the first two and half years of the market while maintaining the wholesale market and with it the potential benefits that it can offer, setting the scene for a future of reliable electricity at rational prices, with less government involvement.

Some of the market mechanisms that we are striving to implement, such as the Day Ahead Market, will provide you with another way to help you better manage your energy costs.

Future supply continues to be of importance to all of us, particularly when you consider the aging generation facilities that we have in Ontario and the plans to phase out coal. Plans are already in place to address any reliability impacts associated with the shutdown of the Lakeview Generating Station next spring and similar plans need to be developed for the other facilities. We all want the same thing here. We want to reduce the impact of our industry on the environment ... at the same time we want to maintain the reliability of the power system.

Sessions like this one today are very important to us at the IMO. It gives us a chance to talk with you about the pressures you are facing, not just about electricity, but other issues such as the impacts of a rising Canadian dollar. We can then develop or adjust our plans taking into account the comments we hear.

At the IMO, or IESO as we will soon become, our priorities are still the same ... to enable you to have a reliable supply of electricity, now and in the future, and to help you better manage your electricity costs.

Thank you very much. I look forward to your questions.