

25 Adelaide St. E
Suite 1602
Toronto ON, M5C 3A1



APPRO
ASSOCIATION OF
POWER PRODUCERS
OF ONTARIO

May 29, 2007

Mr. James Arnett
Chair
Agency Review Panel
PO Box 100
1st Canadian Place
Toronto, On M5X 1B2

Dear Mr. Arnett,

Thank you for your letter of May 10, seeking written submissions from stakeholders including APPRO, to which we are pleased to respond.

In your letter you ask us to focus our attention on your Phase II work, comprising two distinct parts:

- a) Areas of duplication and overlap among or between the agencies under review, and recommended actions or policies to address these, and;
- b) Views APPRO or its members might have with regard to the human resources and skills needs facing the sector, and advice related thereto.

At the moment, Ontario's electricity is organized along the lines of a "hybrid market".

APPRO's view is that in this context, the primary focus of policy and political attention should continue to be ensuring that Ontario has a reliable, adequate and affordable supply of electricity which is economically and environmentally sustainable, and supports a reasonable rate of return for generators.

We consider the following to be key priorities for Ontario:

- a) Efficient and timely investment in both conventional and renewable generation resources for Ontario's power system to ensure adequacy and reliability must remain a high priority because Ontario still needs

- significant investment to renew and replace existing power generation facilities that are reaching the end of their useful life or will be retired,
- b) There are a number of very significant transmission investments which must be considered and undertaken. These will be challenging in all respects from planning, siting and regulatory approvals, to actual construction (these issues are also extremely critical for generation projects). Every effort must be made to ensure that they too can be implemented on a timely and efficient basis;
 - c) Market evolution: there remain a number of serious impediments to the achievement of a properly functioning marketplace which result in distortion of price signals leading to customers not paying the true cost of electricity they consume, and diminished opportunity for demand responsiveness and conservation, impeding improvements in generator operating costs and availability, increased NO_x, SO_x and CO₂ emissions, and the like. Fine tuning is needed to the current system to address existing market performance issues that are increasing costs for all market participants. An incremental approach should be employed to move toward an enhanced competitive market (i.e., one with multiple buyers and sellers, which operate on a level playing field, in the absence of undue market power). Regardless, long-term commitments to backstop investment must continue to be in place to incent new supply.
 - d) Stable and predictable public policy is critical to efficient investment and effective markets. This is vital to attract private capital investment for new generation or to keep existing generation operating. This stability must exceed the mandate of the government of the day and provide the longer term underpinning for a healthier electricity sector in Ontario.

Given the above, it is our view that while there may be some fine tuning required in terms of the agencies responsible for the various aspects of the electricity sector in Ontario -- too little time has elapsed since passage of *The Electricity Restructuring Act* in 2004 to demonstrate conclusively that any major change is currently required. Moreover, any such change could lead to unintended outcomes and jeopardize the very stability the current hybrid system is designed to afford for the province. Over time, there may well be other changes required but these should be pursued through other more widely-engaging approaches than this current review panel has the either the time or resources to undertake.

From a purely practical perspective, one significant improvement would be for government to consider developing a “one-stop shopping” point of contact for the coordination government-related issues for all power projects. This would pay immediate benefits in a number of ways, including permitting and siting issues.

The current hybrid market is likely not the ultimate market end-state for Ontario, but for the near-term it does provide stability and an opportunity to initiate reforms that would result in a market structure that is more sustainable and will better serve Ontario’s interests. With consumers shielded from spot market

volatility and prices to a large degree, effort can be devoted to getting the “right” real-time price signals (a “no regrets” approach).

With regard to the human resources and skills needs facing the sector we do not have any specific recommendations. We would note however that this problem is not limited to the electricity sector: many other sectors of the economy face similar challenges. Our member companies continue to work in this area both in their own right, and with other organizations such as the Canadian Electricity Association in examining pragmatic and cost-effective solutions to this challenge.

In conclusion, Ontario is still a long way from having a secure and reliable supply of domestic power. But we are heading in the right direction and now we need to focus on our longer term energy needs, removing barriers to bringing additional power supply online, and the future of markets. Some fine tuning may required along the way in terms of the agencies responsible for the various aspects of the electricity sector in Ontario, but stability is equally important therefore any alterations must consider very carefully the possibilities of unintended outcomes which could jeopardize the very stability the current hybrid system is designed to develop.

Sincerely,

A handwritten signature in black ink, appearing to read 'David Butters', written over a large, light-colored oval shape.

David Butters
President

c.c. APPrO Board of Directors