

Notes for Remarks

Will there be enough power?

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Good afternoon -- thank you for the opportunity to speak to the 4th Annual Power Summit.

The topic I've want to address is the status of Ontario's electricity supply:

Are conditions sufficient to ensure we have what we need, when we need, at a price we can afford?

What are the options available to us?

Is Ontario ready for investments that will be needed over the coming months and years in order to secure our energy future?

Will there be enough power?

This is important to APPrO and its members because our objective is to achieve a power sector in Ontario that features multiple sellers and buyers, supports private sector investment, provides a healthy, equitable and environmentally-responsible business framework, and results in reliable and affordable electricity for all Ontarians. These are the tests by which we are measuring the government's success in its restructuring efforts.

But back to my topic for today: the status of Ontario's supply needs.

My premise is basically that for Ontario to meet its electricity supply needs we must establish a true cooperative partnership between private capital and governments. We need to do this in Ontario and in other jurisdictions because taxpayers simply cannot shoulder the burdens – and risks – of investment in essential infrastructure.

Let's cut to the chase -- reinvesting in energy infrastructure in Canada and indeed Ontario is arguably the single most important public policy challenge facing Canada and especially Ontario today. Very large amounts of capital need to be secured, and basic questions need to be addressed about the degree of competition and the regulatory structures into which that investment must be attracted. In addition public policy needs to deal with an increasingly thorny challenge in terms of managing price increases. Despite continued demand growth in world and North American energy markets, investments in energy supply and infrastructure (which includes electricity transmission and distribution) in Ontario are lagging. A new reality of higher prices coupled with very large investment needs for new and replacement capacity as well as new technology and environmental improvements has put energy back into the public policy and investment climate spotlight, and I would wager that it will become even more central as time goes on.

In short, energy has become a strategic issue because energy is the essential underpinning to much of Ontario's economic prosperity.

But it isn't just about investment – we need to consider the public interest.

As Ontario discovered so graphically in August 2003, with a blackout that affected 50 million people and 61,800 MW of electric load in Eastern North America, people discovered that electricity has value well beyond that normally recognized in its price.

It underscored a key reality for all participants in Ontario's electricity sector: the key jugular issues are energy security and reliability for Ontario's citizens, and affordability both for individual consumers and to support the industries on which they rely for jobs. Electricity is the very life blood of Ontario's economy. There's no getting around it: without an adequate, reliable and affordable supply of electricity the prosperity and quality of life we enjoy in this province would not be possible.

To achieve this, we at APPrO have argued that Ontario needs an energy policy framework that reconfirms its commitment to a rules-based, competitive approach to energy investment and supply. If our policy and regulatory processes are clear, sustainable, efficient and effective, these and many other Ontario advantages will ensure we are a destination of choice for energy investment.

All investors in generation, transmission and distribution (private and public) recognize that their investments are for the long term. The best prices are available to consumers when infrastructure investments can be amortized over significant time-frames. A stable energy framework is necessary in order that infrastructure capital costs and financing can be spread over a long period.

Uncertainty about the regulatory framework makes it difficult to predict industry structure or market expectations, and this deters long term, large-scale capital investment – or at the least, makes it more expensive with the addition of needless risk premiums.

So, given the long lead times required to bring new capacity and transmission on-line, we need to stabilize our energy policy in order to provide a more certain foundation for the sector over the long-term, and to attract new investment to Ontario. A period of regulatory and legislative stability will demonstrate that Ontario is a solid jurisdiction in which to invest.

Consumer education also continues to be a critical area of development to transition Ontario to a robustly competitive market. Ontarians must be empowered to make informed choices as consumers, which includes providing them with an understanding of the tools available to them to assist Ontario in conserving electricity.

What is does the investment climate for Ontario's electricity sector look like?

We think it looks promising but are prevailing conditions sufficient to ensure that enough reasonably-priced supply will be built in the short time available? How do we ensure the system encourages healthy competition? How do we create a level playing field amongst the various supply options? How do we promote efficient development while looking after our environmental responsibilities? The fact is that we still need long term PPAs to persuade investors to put their money into generation whether it's here or elsewhere.

So where are we against these factors?

First it's important to note that we have made progress. We believe the government has the right intentions and generally the right goals.

We believe that the Ontario government understands the benefits of a competitive market, and is prepared to allow the market to evolve by bringing Ontario's electricity sector to an appropriate balance between regulation and open markets. It's a bold experiment but the government's evolutionary approach may be the right one. In theory,

a hybrid market should work -- time of course will tell. It's encouraging that over the past 18 months we haven't moved backwards -- and that's progress in this sector...

Bill 100 was an important milestone in our energy journey. APPrO members were part Ontario's Electricity Conservation and Supply Task Force, and this Bill and the government's underlying policy approach reflect many of the Task Force's recommendations to achieve a balanced energy supply from a variety of technologies. Everyone who is here today should be familiar with the supply challenge Ontario faces.

As the Minister of Energy and others have noted, factoring in the growth of our economy, we will need to refurbish, rebuild or replace 25,000 megawatts of generating capacity over the next 20 years.

That represents more than 80 per cent of Ontario's current capacity of about 30,500 megawatts.

The estimate is that that this will require an investment anywhere from 25 to 40 billion dollars, depending on what generation resources we choose to build, and when.

This will require Ontario to move to a state where prices reflect the true cost of power but of course we recognize that the government will have to balance this with the need for fair and competitive electricity costs to support the sustainability of our economy. It will no mean feat to balance a huge array of competing priorities and interests, and to ensure we're getting it right.

Part of the recipe the government has brought forward includes the introduction of a new body called the Ontario Power Authority.

The OPA will have the ultimate responsibility for ensuring long-term electricity supply adequacy in the province, principally through what will be known as the Integrated Power System. The Integrated Power System Plan will lay out a plan for conservation, supply, and transmission that will hopefully ensure an adequate supply of electricity based on a 20-year outlook.

Aside from its planning function, the OPA will also have the ability to procure supply, if necessary.

The current reality is that there is an opportunity to bring forward robust generation projects with quality sponsors if there are creditworthy off-takers. This means power purchase agreements with the OPA. While one obvious process for procurement would be a "request for proposal" process, similar to the two RFPs Ontario has already initiated, these need not be the only way to ensure that adequate generation supply is developed in Ontario.

Bilateral negotiations (like the Bruce 1 & 2 restart discussions) are another way. And various forward markets could begin to fill this role more effectively over time.

Developing an integrated system plan will be a very challenging task when the many variables at play are considered. It will be challenging even when all decisions are made through a set of organized processes.

Last June, the government announced that it was seeking proposals for 2,500 megawatts of new electricity capacity through either generation or conservation initiatives.

The results have now come in and while a bit short of the target, we can see that we are making additional progress in this area with 6 new gas fired projects totaling 2165 MW.

On the renewables side, the government completed a call last November for 300 megawatts of electricity from renewable sources. In fact, they were able to secure contracts to provide 395 megawatts of renewable energy – more than they anticipated -- mostly from wind power projects, but also from small hydro and biomass projects.

This is a good sign and, in April Renewables RFP 2 was announced for up to 1000 MW.

But we still need to see where existing Ontario generation facilities – (existing NUGs and the "early movers", fit in.

This is a reasonable first start but will it be enough?

Let's focus on the off-coal policy for a moment, which I take as written, because it is central to where we go and how we get there.

We are going to transition from 7500 MW of coal to cleaner supply alternatives. This represents the largest and most significant system change ever undertaken in Ontario. Moreover, it is a hugely complex transition which must be closely monitored, and which may be subject to many variables and considerations.

Coal currently makes up a large part of Ontario's flexibility to meet changes in demand, balance load and generation at all times

Replacement capacity must have similar characteristics. This transition involves major financial and technical considerations, as well as significant risks and challenges which must be addressed prudently.

In order to ensure reliability we also must recognize industry capabilities and various risks: regulatory approvals risk, infrastructure support risk (e.g., gas), industry capability to deliver, system and market integration, etc.

While there are many arguments for and against coal, unless the government backtracks we must have a well-thought out and openly discussed transition plan to ensure reliability, be careful to ensure that all the structural elements to support coal phase-out are in place, and finally be prepared to be flexible in implementation.

What has become abundantly clear to anyone who follows this is that despite much progress in incenting new generation, we will not be able to phase out our existing coal assets by 2007. This being the case, we should have an honest and open public debate about how we are going to do this and what the risks of the various options really are. Maybe it's as simple as extending the date to 2009 or 2010 – but at any rate we need to be up front about it.

Again, the key thing is to bring forward solutions that may be optimal in terms of economic and environmental cost/benefit.

With respect to new power going forward, it's "horses for courses..."

What we need is a balanced portfolio of fuel-types to produce electricity. We need workhorses: the mix will still include substantial refurbished and probably new nuclear power and baseload hydro assets.

Gas will be the fuel of choice for intermediate and peaking power.

Renewables will see their share increase significantly, but it's not clear what their ultimate contributions will be.

CDM will also play a role – again unclear to what extent.

The conclusion is that prices over the long run – say through 2015 – will be going up. Of course the key is where gas prices will be and there are a number of contradictory views about that. But the longer term inevitability of upward price pressure on electricity prices is inarguable.

This leads me to an important point.

We need to ensure that the interaction between gas and electricity markets in Ontario truly serves the needs of Ontario in terms of supply, reliability and efficiency. The problem is that a lack of a match between gas and electricity markets is an increasing impediment to the efficiency of the energy markets.

Last week APPrO in association with ERA held a 1 day forum on gas issues. We had over 100 representatives representing Generators / distributors / gas producers and marketers / pipelines / legal experts / regulatory and Ontario government agencies (OEB, OPA, Ministry of Energy)

Our primary conclusion was that a day-ahead electricity system is needed. And, that in gas changes are also needed, particularly scheduling / nomination and services. What we need to do now is seek to enhance the mutually supportive operation of energy markets, and mitigate risk of cross-market disruption. There are obviously piles of details to work out but we can make this work if we keep the big picture in mind in terms of the overall cost.

Transmission is another key policy area which has huge impacts on supply.

It is important that Ontario transmission and distribution issues be viewed in the broader industry context, and that the policy solutions consider the long term plan - not just short term, through a reasoned analysis of transmission and generation options to arrive at the best solution in light of a number of environmental, cost and supply issues.

We should also keep the same focus on new transmission build as we are doing in generation – there's no reason private sector capital can't be employed to meet growth needs if we want to optimize scarce public resources and get lower priced construction. This can be done without central operating control being weakened.

In conclusion, we are making progress. We have a long way to go, but I believe we are putting in place some fundamentals that will provide a reasonable foundation upon which we can build. It seems to me however that we need to arrive at a shared understanding of the appropriate role of market forces and private capital in the electricity sector. Until we achieve this our ability to achieve our common goals and objectives will be in doubt.

None of us can afford that.

Thank you.