



**Notes for Remarks:**  
**Striking the right balance: aligning system and sector needs**

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Check against delivery

Thanks so much for the introduction, and for having me here today – the third year I’ve had the opportunity to speak to you as CEO of the Independent Electricity System Operator. This afternoon, I’m going to focus on how the IESO is planning and preparing to address Ontario’s future electricity needs.

I’ll begin by discussing the IESO’s approach to acquiring new capacity, and the evolution of our capacity auction to meet the needs we’ve identified, before moving to how fundamental shifts in the environment are influencing how we will procure resources – whether energy, capacity or ancillary services.

Not surprisingly, nothing that we’re doing to renew the markets and deliver on our promise to improve affordability and reliability through competition happens in isolation. Rather, it’s all part of the way we’re addressing the transformation to a much more dynamic and decentralized grid – one with more players, more types of participants and, quite frankly, more complexity which leads to the need for broader stakeholder consultation.

When you step back and think about it, over the last 15 years or so we have virtually reinvented the system in Ontario, from phasing out coal and integrating large-scale renewables across the province, to addressing the tight supply situation that we saw back in 2005. And, for the most part, we have achieved that on the resource side through long-term contracts. We’ve done what’s necessary to get to where we are today, but I believe we have a better approach for the future, and I’m going to touch on that this afternoon.

The Market Renewal Program is an important piece of the equation for us. With the approval of the high-level designs of the energy work stream, and a business case that estimates we can achieve \$800 million in net benefits over the first 10 years alone, we've built a very strong foundation for change.

The fixes we've made to align price and dispatch, send the proper price signals, provide greater operational and financial certainty for the IESO and for market participants, and result in efficiencies that benefit the system, resources and ratepayers. Today, we're operating in a landscape where we must reduce our reliance on long-term guarantees, and where the various services we need to operate a reliable system should not be bundled together.

That's why we're taking steps to enhance resource flexibility and to share the risk by balancing the needs of suppliers with the needs of ratepayers, and the 14.5 million Ontarians who depend on us – *all of us* – every day. That's also why we're going beyond market renewal and addressing inefficiencies; we're also supporting changes that will enable the markets of the future.

That said, none of this is going to happen by accident – or overnight. We understand that. But we're committed to making the changes required, including putting greater emphasis on competition, which will help us ensure reliability at the lowest cost – now and into the future. We're also committed to helping participants understand the opportunities associated with this transition.

For those of you who have heard me speak recently, or heard [IESO Senior Director of Planning] Chuck Farmer this morning, some of what I'm about to talk about may not be new, but it's important to repeat. We know that Ontario is energy adequate for the next 20 years, so we're in a strong energy supply situation if existing generators continue to be available post-contract expiration. That means we do not require new-build infrastructure to meet our needs, given the sufficient baseload and combined cycle resources over the next two decades.

Our Annual Planning Outlook, to be released shortly, will inform discussions and decision-making on a number of fronts, and have important implications on how we address resource adequacy and procurement going forward.

From a capacity perspective, we know that we need about 2,000 MW of capacity beginning over the next three to five years, and that this will grow slowly over the next couple of decades into the 2040s. This need is initially limited to only a few hours a year and can be met cost-effectively by acquiring capacity from existing and available resources, including demand response, imports and generators that are currently off or are coming off contract.

Our Outlook, combined with stakeholder input, has helped guide our decision-making, particularly with respect to our move to halt the incremental capacity auction earlier this year. That reflected stakeholder concerns, as well as the recognition, through our work on the Annual Planning Outlook, that the initial high-level design had more scope than was required for our needs, including potential requirements to accommodate new-build infrastructure within the auction design. We know there is value for

ratepayers in developing mechanisms to allow a variety of resource types to directly compete to provide capacity – and enabling competition remains one of our core strategic objectives at the IESO.

However, instead of proceeding with the original design of the incremental capacity auction, we are now taking what I refer to as a more phased approach to developing a capacity market – a decision that was a direct response to concerns many of you in the room had that we were moving too fast and taking a one-size-fits-all approach to our work. That’s where our decision to evolve the existing demand response auction comes into play. We’ve run the demand-response auction for the last four years and we’re going to build on that platform.

Stakeholders, including APPrO, had concerns with some aspects of the capacity auction design, and we have taken the time to meet with you to better understand those concerns and apply that learning as we evolve the demand response auction. Our first step in that transition is planned for next month, pending the outcome of a current stay application that is now before the Ontario Energy Board.

We are currently planning to open the auction to new resources, including generators that are no longer on contract with the IESO. Our plan is to continue to evolve the auction with the intent to introduce imports and storage into the capacity auction beginning in June 2020. And in December of next year, we’ll see additional resource types eligible to participate in the auction. This phased approach, adding different resources as we go along, will give both us at the IESO and participants an opportunity to make sure the structure works. I like to call it a “crawl-walk-run” model. Regular

auctions will continue from 2021 forward with opportunities for additional resources, such as energy efficiency, which is currently the subject of a pilot auction we will run next year.

As you know, in reacting to the proposed incremental capacity auction, stakeholders told us there were a number of risks and barriers that would limit or inhibit their participation. These included, on the supplier side, the risk of being impacted by future government policies, or changes to our market rules. They also referred to revenue uncertainty and project development timelines as risks or concerns.

In providing feedback on the incremental capacity auction high-level design, you told us that the risk swings too much in one direction. We heard, for example, that you could face financing and revenue risks due to the short commitment period, lack of market intelligence and uncertainty regarding market size and forecast needs. We also heard that short forward periods may not accommodate your siting, regulatory approval, community consultations and construction timelines for all resource types.

The IESO, in protecting the interests of ratepayers, has its core objectives – and each of these comes with its own risks. While creating a level playing field has been an important objective of ours for some time, we recognize that continuing barriers could limit participation to certain technologies – and restrict competition.

At the end of the day, we need a more balanced approach to addressing risk – and that's really where our proposed engagement that's going to kick off early next year comes into play. While we believe capacity auctions will have an important role in

ensuring future resource adequacy needs continue to be met, exploring other ways to secure capacity will help address stakeholder concerns and allow the IESO to meet system needs reliably and cost-effectively.

To shed some light on the resource adequacy situation, let me give you a little more background about the current status of contracts. We believe that an auction can effectively acquire resources, such as wind, solar, some gas resources, demand response and potentially energy efficiency as I mentioned earlier. All can contribute to helping us meet our capacity needs.

But we also know that an auction is not suited to acquire certain types of capacity, such as nuclear or large hydro facilities. The capital costs and long-term investment needs can't be addressed through an annual auction process. We do understand that. There may also be resources that have unique needs, benefits, barriers or risks that would preclude them from participating in a capacity auction.

Over the next 10 years, more than 200 contracts totalling more than 11,000 MW will expire. Almost 4,000 MW in contracts are due to expire by 2025. And 75 per cent of the capacity is from 13 large – large meaning greater than 150 MW – facilities. While contracts are expiring, we know that most facilities still have a lot of life in them and can continue to be called on to meet system needs.

I spoke earlier about the need for a more balanced approach to risk – and that's really core to the upcoming engagement on procuring capacity. We'll use this as an opportunity to have robust conversations on how we translate planning assessments to

power system needs, starting with an understanding of supplier and ratepayer risks within the context of what we know about our forecast demand.

As there is no single solution for all resources, we will work with stakeholders to develop and apply a suite of procurement tools to meet our capacity needs. Beyond a capacity auction, tools may be stand-alone or in addition to current market tools. As always, we'll be seeking input from stakeholders on this as we proceed. You'll hear more about this consultation in the very near future.

We're starting this engagement with three primary objectives. First, we'll engage stakeholders in an open discussion of risks and opportunities. We'll use these discussions to understand how to best allocate risk in Ontario markets. And, finally, we'll develop a suite of additional tools to meet our long-term adequacy needs. But there's one message that I do want to reinforce. And it's that while we have a developing capacity need, we don't have the need for new build, and I believe we've got the time to have these consultations, to hear concerns from the sector, and to ensure we've made the right decisions as we go forward.

Our first meeting will take place early in the new year, at which point we will outline IESO needs over the next 20 years. These needs centre on reliability, affordability and increased flexibility. Stakeholders will have an opportunity to present their perspective on their risks and how best to allocate those risks as they participate in current and future markets.



Based on discussions with stakeholders, the next step will be to determine a common list of risks and issues and propose a model for potential solutions that meets system needs while considering the risks. Our intent is to produce a strawman in the second quarter that lays out our thoughts on tools to meet our resource adequacy requirements as existing contracts expire.

Some things won't change. We will look to procure required resources through a competitive process wherever possible. We also want to level the playing field for all resource types -- existing and emerging -- with efficient market entry and exit when those resources are no longer economic.

Of course, this is not the only important topic we'll be seeking your feedback on this year. You may have heard this morning that we'll also be revisiting some Ontario-specific reliability requirements that may be more stringent than those required by other jurisdictions with a view to finding the right balance between self-sufficiency and cooperating with our neighbours to maintain a more cost-effective and reliable service.

Let me switch topics for a moment. As you are no doubt aware, we have received a directive from the government requiring the IESO to retain a third party to review targeted generation contracts to identify opportunities to reduce costs. While it's still early days, we're very close to finalizing the hiring of a consultant to help us with this work and ensure we can provide our key findings and recommendations to the Minister of Energy, Northern Development and Mines by the end of February.

We'll be working with them in the coming days to scope their review, and I expect we'll be reaching out to contract-holders to seek their input as well.

All options will be considered but obviously we will focus on finding outcomes that benefit both consumers and contract-holders. Any outcome will also need to align with our electricity and system needs. I want to make sure there is an ongoing dialogue as we move forward with this process, so our promise is to keep you informed.

As always, our engagement with you is really important. We've learned time and time again that informing and being informed drives better outcomes – for us, for the sector and for ratepayers.

So with that, I'd like to thank you for your time. I'd be happy to take any questions.

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