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Archived Release

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Ministry of Energy

"Balanced approach" includes new Ontario Power Authority to ensure supply and new rate plan to serve consumers TORONTO, April 15 - The McGuinty government has unveiled a new vision for Ontario's electricity sector that will mean new supply, increased conservation and stable prices. "This is an approach that will make up for over a decade lost in Ontario's electricity sector, and ensure Ontario's prosperity for decades to come," said Energy Minister Dwight Duncan. "We are putting Ontario back on solid footing by taking a balanced approach - one that addresses the critical need for new supply, increased conservation, consumers' desire for price stability, the importance of public leadership and the need for private investment." In a major speech to the Empire Club, Duncan said Ontario faces an energy crisis. It needs to refurbish, rebuild, replace or conserve 25,000 MW of generating capacity by the year 2020 to meet growing demand while replacing polluting coal-fired generation. That represents 80 per cent of Ontario's current generating capacity and would require an investment of \$25 to \$40 billion. "For more than a decade, previous governments have been hamstrung by indecision and ideology," said Duncan. "They've clung to the old Ontario Hydro model, and tried moving to a fully competitive market, and neither has worked. And they've done virtually nothing to come to grips with our long-term supply needs." To tackle these challenges, the government intends to propose sweeping reforms in legislation to be introduced this June. If passed, the reforms would include: - A new Ontario Power Authority that would ensure an adequate, long-term supply of electricity, including a new Conservation Secretariat, headed by a Chief Conservation Officer. - A requirement that the Ministry of Energy set targets for conservation, the use of renewable energy, and the overall supply mix of electricity in the province of Ontario. - Greater encouragement of private sector investment in new generation to help meet growing demand. - A combination of a regulated and a competitive electricity generation sector, which would see prices for electricity in Ontario set in two ways: part of the supply would be price-regulated by the Ontario Energy Board (OEB), and part would be paid the competitive market price. All consumers would benefit from the increased stability that this blended supply mix would provide. - A new standard rate plan offered to homeowners and small businesses, with prices that would be adjusted and approved periodically by the OEB.

This would ensure price stability while passing on the true cost of the electricity. - Choice for industrial and commercial consumers, who would continue to have the flexibility offered by the market, or could use other tools to help them manage their energy costs. Minister Duncan also announced that the Honourable Jake Epp has been confirmed as chairman of Ontario Power Generation (OPG) effective immediately, and that the government is commencing a search for nine new members of OPG's Board of Directors, as well as a new Chief Executive Officer. "We've chosen what we strongly believe to be the best approach, a balanced approach. It represents a real, positive change from the past, and a bright, more prosperous future."

Backgrounder -----

HIGHLIGHTS OF THE MCGUINITY GOVERNMENT'S NEW VISION FOR ONTARIO'S ELECTRICITY SECTOR

On April 15, 2004, Energy Minister Dwight Duncan announced the McGuinty government's vision for Ontario's electricity sector. The government has drawn inspiration for its vision from the recommendations of both the Electricity Conservation and Supply Task Force, chaired by Courtney Pratt, and the OPG Review Committee, chaired by the Honourable John Manley. The McGuinty government is planning to introduce legislation in early June to establish the new sector structure. Implementation of the new structure is targeted for early 2005, subject to passage of the legislation. Legislation will propose the following: 1. A combination of a fully regulated and a competitive electricity sector. The government intends to move away from the use of a pure market to price electricity at the wholesale level. The output of Ontario Power Generation's (OPG) nuclear and baseload hydroelectric assets would receive regulated prices, initially established by the government, but subject to future review and approval by the Ontario Energy Board. These generation facilities operate most efficiently when they run continuously, and they would continue to do so and receive regulated prices. These regulated prices would be passed through to consumers. The costs for existing and new contracts for generation would also be passed through to consumers. The price for other electricity generated in the province would be set by a competitive market, as it currently does through the Independent Electricity Market Operator (IMO). This combination of pricing mechanisms would result in a blended cost for all consumers. 2. Stability for consumers who want it, and flexibility for consumers who need it. To ensure consumer protection and price stability, residential, small business, and other designated consumers would be offered a regulated rate plan. It would be adjusted periodically to ensure consumers pay the true cost of electricity over time, but that prices remain stable over the course of each year. The Ontario Energy Board would approve the plan, and guarantee public input and fairness. Consumers and small businesses that do not wish to participate in the regulated rate plan would be free to purchase their electricity from energy retailers.

Electricity costs for medium and large businesses would reflect a combination of regulated and competitive market prices for electricity. These businesses could also opt to use energy retailers or financial hedging instruments to manage energy costs. They would retain all of the flexibility and benefit of purchasing from the competitive market.

3. Opportunities for investors. The continued existence of the competitive market is a crucial incentive for private investors to enter Ontario and support the building of the thousands of megawatts of electricity that is needed over the next fifteen years. The recent turmoil in Ontario's electricity market has shaken investor confidence. The McGuinty government is sending a clear and unambiguous message that Ontario is a good place to invest, and that politics will not impair the private sector's ability to earn a fair return on their investment.

4. The creation of a new independent body called the Ontario Power Authority. The government intends to create a new institution, the Ontario Power Authority, which would be assigned the obligation to ensure long-term supply adequacy in Ontario. This entity would take over some of the functions currently assigned to the IMO, such as forecasting, but would also be responsible for developing and maintaining an integrated system plan, to ensure the smooth cooperation of both electricity generation and transmission in Ontario. In addition to its forecasting and planning functions, the Power Authority would be responsible to call on the private sector when needed to build new generation capacity through a competitive and transparent procurement process, which would foster innovation and creative approaches to meeting Ontario's supply challenges. The McGuinty government has already anticipated the need for this function by announcing an RFP for 2,500 megawatts of new generation capacity or demand management initiatives, as well as another RFP for approximately 300 megawatts of renewable capacity. This is an example of the way that the new Power Authority would ensure that supply is built in the future, if the private sector does not build sufficient capacity on its own. The McGuinty government believes this plan would encourage a diverse spread of generation capacity across the province, and reduce barriers to distributed generation, which, in turn, would lower the risk of transmission failure and minimize the environmental footprint of Ontario's electricity infrastructure. Distributed generation, which is also attractive from a security perspective, holds significant promise for the environment, focuses resources only where they are absolutely necessary, and reduces the need for massive transmission networks across the province.

5. The creation of a new Conservation Secretariat to be housed in the Ontario Power Authority. A new Conservation Secretariat would be established within the Ontario Power Authority to lead Ontario's conservation efforts to engage and empower consumers across the province, and develop province-wide programs to help Ontario's homes and businesses to conserve and to save money. The Conservation Secretariat would also be charged with monitoring the progress Ontario is making in reducing overall demand. At the local level, the OEB would establish a framework to help local distribution companies (LDCs) deliver energy conservation programs as appropriate. The current disincentives for local distribution companies would be removed, and LDCs would benefit from empowering their customers to

conserve electricity and making their own systems more efficient. 6. The Ministry of Energy will continue to set targets for conservation, the use of renewable energy, and the overall supply mix of electricity in the province. The proposed legislation will give explicit directive power to the Ministry of Energy to establish targets for conservation, the use of renewable energy, and the overall supply mix of electricity in the province of Ontario. The McGuinty government has already stated its medium-term goals: 5 per cent of Ontario's capacity should come from new renewable sources by 2007, 10 per cent by 2010; and electricity demand should be reduced by 5 per cent by 2007 through conservation. The Ontario Power Authority would be charged with achieving the targets set by the government, and would include them in its system planning. Disponible en français. www.energy.gov.on.ca For further information: Contacts: Angie Robson, Minister's Office, (416) 327-6747; Ted Gruetzner, Communications Branch, (416) 327-4334

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