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Closing the Gap: Restoring Value to Ontario's Electricity Sector

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Good morning.

I want to talk about connections today – specifically connection with ratepayers. I want to examine this topic as part of a larger context.

There is a feeling of frustration that I believe is becoming increasingly prevalent among ratepayers in this province

As members of APPRO, we should all be concerned. I believe that APPRO's role in dealing with this issue will become increasingly important over the coming months and years.

Ontario's electricity sector has a proud legacy.

The generation assets all of us have built and operated over the decades helped fuel Ontario's growth.

The resulting benefits have been substantial. Good jobs...Improved living standards....An enhanced quality of life.

But I doubt if these things are top of mind when people think of electricity today.

In fact, many consumers seem downright angry when they open their electricity bills.

The need for new generation and transmission, conservation, new pricing programs, and changes to the supply mix have all contributed to this situation.

My point today is not to debate the causes.

It's how to deal with the reality.

No one likes to pay more for a product or service, especially when they might not understand what they're getting and when they might not see the value in what they're paying for.

Many consider the rising cost of power as perhaps putting pressure on the economic growth of the Province...or putting pressure on people's actual lives as they struggle to cope in the aftermath of the recession.

Not only does electricity cost more. But I think it's also a bit confusing.

The average ratepayer may have very little idea how their bills break down, how the market works, what our industry does or what it's comprised of.

Based on some of the interactions I've had with people, we're all still "Hydro" to many Ontarians.

Naturally, I'm concerned about this dynamic. We all should be concerned about it.

A gap exists between us and the ratepayers we serve.

And perhaps customers don't see us as providing the value we should.

It doesn't have to be this way.

Sir Adam Beck, the founder of our predecessor company Ontario Hydro, had a simple, coherent message. People understood his value proposition -- that electricity could significantly benefit their lives.

That's because Beck took the time to show them. In the early 1900s, he travelled across Ontario in his famous "Hydro Circus," introducing rural folks to a host of labour-saving devices – everything from electric stoves and washing machines to milking machines and power saws.

For the next 50 years or more, Beck's strategy was continued by the Hydroelectric Power Commission and Ontario Hydro. Hydro made sure that electricity was seen as a positive and productive force in people's lives.

It built massive hydroelectric projects across Ontario to meet post-war demand.

It also launched a huge and highly successful campaign to convert Ontario's electricity system from 25 cycles to 60 cycles. This involved going door-to-door across Ontario and changing or replacing the motors of millions of household appliances.

The electricity industry was really connected to people back then.

We can do it again.

I don't have all the answers to achieve this. But I do feel free as keynote speaker to offer some suggestions on what we might focus on.

First...we need to know what our industry stands for.

In the past, Ontarians knew exactly what that meant. It meant "power at cost available for all Ontarians."

Beck and his successors delivered on that vision.

- They built and acquired scores of generating assets.
- They expanded their customer base exponentially.
- They deployed many of the new power technologies of the time to support the electrification of society.

These factors created the economies of scale which helped keep power prices low – and in fact declining -- for many decades.

Transmission lines went from 110,000 volts...to 220,000....to 500 KV.

In generation, we went from 10 MW units...to 100 MW units...to 1,000 MW units.

It was these economies of scale that were available and deployed very successfully that kept energy prices low.

Clearly, Beck's vision was right for the times.

But I would argue that we are in a different spot today.

The reality is that Ontario's power system is now very mature.

There are fewer opportunities -- technological and otherwise -- to capture the significant economies of scale that we achieved in the past.

Electricity prices are rising as a result.

Within this new reality, we do need to focus on how to renew the system...how to maintain it...and how to make it cleaner.

And we have to do it cost effectively.

What we're talking about – certainly for OPG – is a very major undertaking.

It involves the maintenance, redevelopment and expansion of Ontario's hydroelectric assets. We operate 65 hydro facilities – as well as over 200 dams. Our hydro stations alone have an average age of over 70 years.

We're also looking at how to repower our plants that burn coal so that they can burn cleaner natural gas or biomass.

The biggest job of all is in nuclear. Here we're planning for the refurbishment of our 20 year old Darlington nuclear station.

Let me pause here for a moment and restate the word “planning.” It's absolutely essential. We've learned that early planning and ongoing communication with the surrounding community and other stakeholders is the key to success. And that's well before the refurbishment work even begins.

We're also investing in the continued operation, for an additional four to six years, of our 27 year old Pickering B station. And we're continuing with processes for an environmental assessment and site preparation licence for two new nuclear units at our Darlington site.

We're not the only ones doing this. Other generating companies are also busy with their own plans for refurbishment and new generation

All told, we have about a decade to deliver these initiatives.

It's a daunting task.

From 2015 to 2025, thousands of megawatts of capacity will be removed from the grid. This includes, of course, our coal burning units. It also includes many of our nuclear units. Pickering will be winding down. Darlington units will go off line, sequentially, to be refurbished.

I call this the "critical decade."

It's "critical" because during this period we not only will have to undertake a huge amount of work.

We will also have to get it right.

I don't think there is a lot of room for error...

...Given the large number of megawatts we have to renew and modernize.

...Given the tens of billions of dollars of investment we have to commit.

...Given that these investments will last for 30 or more years to the benefit of future generations.

...And given the relatively narrow window of time we have to work with.

The stakes are high.

More than ever, I believe our industry needs a new value proposition...One that we can all subscribe to and which reflects the new reality I have just described.

As a suggestion – and I emphasize that word because I am not trying to be prescriptive -- here are perhaps some tenets this new value proposition could include:

- First....Electricity producers must create value for Ontarians;
- Second...We must operate transparently and in the public interest; and
- Third...and by the way, these are the table stakes...Electricity must be generated in a safe, environmentally responsible and cost-effective manner.

I believe a stronger focus on value and transparency – the first two items -- is key.

So how do we do it?

I believe effective regulation can play a role in helping us connect with the ratepayer and demonstrate value in a transparent way.

I think many of us will agree that the regulation of Ontario's gas market has been a success.

Gas regulation in this Province encourages openness, transparency and accountability. These are values that benefit consumers and producers.

I would like to see consideration of a similar approach applied to electricity.

At present, OPG is the only electricity generator in Ontario that goes before the Ontario Energy Board to justify prices on our nuclear and large hydro operations, which represent almost 70 per cent of our generation.

In fact, we're going through this process now. It includes being interrogated by a wide variety of groups and individuals.

I'll admit, we were uneasy at first about this process. It's not the most pleasant experience in the world.

But we soon came to realize its value both to ourselves and to the public we serve.

It's forced us to examine very closely many of our own practices and assumptions. And I think we are a better company for it.

I think our industry as a whole can learn a lesson from this. Openness, accountability and transparency pay big dividends.

If Ontario generators want to connect with customers and show them our value, than we need to ask ourselves how well we have embraced these values.

Of course, to be truly valued by Ontarians we also need to perform -- in all areas.

This includes safety...operations...project management...cost control and efficiency.....the environment...communications....the whole nine yards.

At OPG, we're well aware of what happens when performance falls short.

In the late 1990s, Ontario Hydro's nuclear performance was in decline. The company's credibility took a big hit as a result.

A few years later, OPG went through a similar experience. In 2003, we restarted Pickering Unit 4 significantly over budget and behind schedule. Our credibility plummeted...As did the confidence of our stakeholders.

That memory is still fresh in our minds.

We've worked very hard since then to improve our performance.

And we have. This includes our big nuclear projects, like the Pickering Unit 1 restart, our two recent vacuum building outages and our safe storage project at Pickering.

These projects have generally been completed either on time or on, or under, budget – or both.

I'm not mentioning these accomplishments to call attention to OPG.

I'm citing them to underscore a critical point for all of us.

Performance matters.

Value matters.

And price matters.

As an industry, I don't think we can ignore how important the price issue has become to people. We have to show them that we know this and that we care.

At OPG, we are aggressively focused on cost management and cost reduction – and I emphasize the word “aggressively.”

Over the past two years, we have reduced our operating costs by more than \$180 million.

Our next Business Plan will build solidly on this effort.

In short, we are creating a strong culture of cost-effectiveness, which needs to be maintained and enhanced.

Again, I'm not saying these things to draw attention to OPG.

I'm trying to emphasize that cost effectiveness – along with performance and value -- are absolute prerequisites for convincing people that our industry operates in their best interest.

I don't think we can ask people to pay higher prices for electricity if we can't control our own costs.

So, to wrap up my remarks....I believe our industry has a problem.

I wonder at times if we haven't become too far removed from the people we serve.

I will be the first to admit that I don't have the solutions.

All I know is that there are the millions of ratepayers in Ontario who demand and deserve value for the prices they pay.

They want us to be cost effective and responsible.

They want us to perform well.

They want openness, transparency and honesty.

Above all they want us to be an industry that sees things from their perspective.

They want an industry that can tell them specifically what we're doing to make and deliver reliable electricity – at a fair price – so that their lives can be better.

There's no better place to begin the task of meeting these expectations than right here at this APPrO conference.

As an industry, we need to come to terms with the issues people have. Then we must come together to solve them.

The key is to get started. Let's get the dialogue going – during the course of today's proceedings. And let's focus on it in the weeks and months ahead.

I believe we can reconnect with the people of Ontario.

And I believe we can close the gap that has developed between ourselves and the ratepayer.

Let's get it done.