

Delivering Value in Today's Electricity Market

Tom Mitchell

**President and CEO
Ontario Power Generation**

To the Toronto Board of Trade

**November 30, 2011
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I would like to thank the Toronto Board of Trade for inviting me here.

My predecessor, Jim Hankinson, spoke at the Toronto Board of Trade in 2006. That was over five years ago. And of course a lot can happen in five years – as all of us know.

So this is a good opportunity for me to bring you up to speed on some of our initiatives and their *value* to Ontario.

If there is one word that I would like you to remember from my remarks today it's this word "value."

Because delivering value to Ontarians – in the broadest sense of the term – is what we're striving to achieve at OPG.

Jim Hankinson transformed OPG into a performance-driven organization. Building on that legacy, we are equally focussed on being an organization that provides value --especially in today's challenging economic climate.

For those who may not know a lot about OPG, we are Ontario's largest electricity generator. We supply about 60 per cent of the electricity Ontario uses. We own and operate over 70 generating stations across Ontario.

And we are owned by you, the people of Ontario.

We're also a major presence in Toronto and its surrounding regions.

- Our head office is here – on the corner of College and University.
- We have a facility in Etobicoke – on Kipling Ave.
- We partnered with TransCanada Energy to build the combined cycle, gas-fired Portlands Energy Centre – an important addition to ensure the reliability of Toronto's electricity supply.
- And in nearby Durham Region, we operate two nuclear generating stations supported by two major office facilities.

Altogether, about 9,000 of our approximately 12,000 employees work in the Greater Toronto Area, including Durham.

OPG is also connected to Toronto by virtue of our history.

- Our predecessor company, Ontario Hydro, owned three buildings at College and University and used them as its headquarters.
- One of Hydro's greatest chairmen, Robert Saunders, was four-times elected mayor of Toronto in the 1940s.
- The founder of Ontario Hydro in 1906, Sir Adam Beck, has a magnificent statue in his honour on University Ave. near Queen Street. And whenever I see it, I'm reminded of the great legacy of "service to the people" that OPG has inherited.
- Hydro also built and operated two thermal plants in the GTA – the Hearn plant in the Portlands; and the Lakeview Generating Station in Mississauga. Both plants have ceased to operate.

So OPG is very much a part of this great city.

Going forward, we want to contribute to its success – and Ontario's success.

And the way we try to do that is – as I said -- by providing you – our shareholders – with VALUE.

That is our vision -- to deliver *value* by producing safe, sustainable, reliable, low-cost electricity. This is our *key role*.

The other part of our vision entails making the right business decisions -- so that we remain a viable company. This helps ensure that the value we provide and the assets we operate – on behalf of all Ontarians -- continue to be there for present and future generations

I believe this vision is relevant to Toronto.

I look out from my office on University Avenue and I see at least a dozen construction cranes – part of major boom in the residential and office high-rises that is re-drawing the skyline of this city.

To sustain this growth, attract investment and operate its residences, schools, hospitals and businesses, Toronto – like any city in Ontario – needs affordable, reliable, sustainable electricity. And there must be a sufficient supply – for 10, 20, 50, 100 years down the road.

That's what I mean by value.

We have a number of areas we're focusing on that I believe help us deliver value.

Strategic Investments

One area ...is strategic investments.

This province has a wealth of diverse generating assets of which we – OPG -- are the stewards.

It's in all our interests to get the most out of these assets, either through renewal, or expansion or proactive maintenance.

One of our most important asset-groups is hydroelectric power – the power that built Ontario.

To preserve and enhance the contribution hydropower makes, OPG is engaged in some of the largest hydroelectric development projects ever undertaken in the province.

These initiatives represent hundreds of MWs of additional clean, renewable energy.

They include the Niagara Tunnel in southern Ontario.

They also include major projects in northern Ontario, like:

- the redevelopment of our hydro stations on the Upper Mattagami River, and
- the massive Lower Mattagami project – the largest hydro construction project the North has seen in 40 years.

These – and our other hydro projects being planned – represent billions of dollars of infrastructure investment by OPG and hundreds of good jobs for Ontarians.

- The Tunnel is a \$1.6 billion project – with a workforce of 450 people.
- Lower Mattagami represents \$2.6 billion – with a peak workforce of over 800.
- Upper Mattagami and Hound Chute was a \$300 million project that employed 500 workers at peak including skilled trades, labourers, and engineers.

This is in addition to the millions of dollars we invest every year to maintain the performance of our existing hydroelectric assets through maintenance, repairs and the purchase of new equipment.

You know, many people view hydroelectric as the “Rodney Dangerfield” of generation sources. “It gets no respect.” And yet it's one of the cleanest, most affordable and most historically important energy sources Ontario has.

Before there was coal...Before there was nuclear...Before oil or natural gas was used to generate electricity...There was hydro.

And it's still going strong.

OPG has hydroelectric plants which are 50-70 years old, and even 100 years old. And they operate as well today as the day they were built – and in many cases, even better.

The Niagara Tunnel we are building will last for 100 years and more.

Few manufacturing facilities can claim that kind of longevity.

That's an amazing legacy to leave for our children, their children and generations to come.

I'm really proud of what we've achieved with the Tunnel.

When it's finished, it will deliver exceptional value to the people of Ontario -- an additional 1.6 billion kilowatt hours of clean affordable hydropower – enough to power 160,000 homes every year.

Not only that...it's an engineering marvel in its own right.

The machine we used to dig the Tunnel weighed 4,000 tonnes, was 150 metres long and excavated enough rock to fill 100,000 dump trucks. It was the largest machine of its kind in the world.

As for the tunnel itself, picture 18 CN Towers lying end to end. That's how long it is -- 10.2 kilometres...over 14 metres high...and 140 metres underground. The water it will carry travels so fast and in such high volume that it can fill an Olympic swimming pool in just five seconds.

We've had delegations from around the world come to visit the project – that's how famous it is.

Even Rick Mercer paid us a visit.

And it's right here on our doorstep...a tribute to Ontario's technological prowess.

Another big strategic area in which we're investing is nuclear energy.

For example, we're moving forward with plans to refurbish our four-unit Darlington nuclear plant.

Darlington is one of Ontario's most valuable assets.

- It supplies almost 20 per cent of the electricity used in the province.
- Its employees have an exceptional workplace safety record – with over 11.7 million hours worked without a lost time injury.
- And currently, two of its four units are performing in the top quartile against US nuclear reactors and all CANDU reactors worldwide.

Refurbishment will ensure this valuable facility will serve the Province for many years to come.

As part of our refurbishment project, we're constructing a major energy complex in Durham Region.

It will house a full-scale mock-up of a Darlington reactor.

We broke ground for this facility in July and expect it to be completed in 2013. Already, about 60 people are working on site – with a total of 120 expected during peak construction.

Simultaneous with our refurbishment activities, we are also continuing with the federal approvals process for the construction of two new nuclear units. These proposed units will be based at the Darlington site in Durham Region Ontario.

Both refurbishment and nuclear new build are multi-billion dollar projects -- with the potential to create thousands of construction, engineering and technical jobs and hundreds of new operational jobs. Not to mention spin off benefits to the local community and to our many industrial suppliers and partners throughout Ontario.

Darlington refurbishment alone is expected to create 3,000 jobs.

Another 3,500 people could be employed in constructing the proposed two new nuclear units at Darlington, according to the Government's Long Term Energy Plan.

This is good for Ontario. And it's good for the GTA.

Before I leave the topic of nuclear I want to say a few words about the Fukushima nuclear crisis resulting from tsunami that struck Japan last March.

I was recently in China attending the Biennial General Meeting of the World Association of Nuclear Operators (WANO).

WANO is the international nuclear industry's foremost safety organization.

Its entire meeting, which lasted three days and attracted over 600 delegates, was devoted exclusively to Fukushima.

I was there to present the recommendations of the WANO Post-Fukushima Commission, of which I was chair.

This was an honour for me -- and for Canada – and I had an opportunity to work with some of the most experienced and respected nuclear professionals in the business.

And let me assure you, not only is Canada highly regarded in the nuclear industry. But everyone – and I mean everyone -- in the nuclear industry is taking Fukushima extremely seriously. We have identified a number of issues relating to the disaster.

We are taking learnings from the event, and we are beginning as in industry to apply those learnings.

And we will continue to do so.

No industry puts safety at such a premium as the nuclear industry.

In this regard, I was pleased that the recommendations of the Commission were unanimously endorsed by the WANO delegates.

Our focus was on the importance of both accident prevention and the mitigation of accidents like the extraordinary one that struck Fukushima.

The industry recognizes this importance.

And I am convinced that as a result of Fukushima the nuclear industry will emerge safer and better than ever before.

Going back to the topic of strategic investments, I want to mention the significant contribution that our thermal plants make.

OPG's thermal plants just celebrated their 60th anniversary of serving Ontario.

If hydropower reminds some people of Rodney Dangerfield, then our thermal plants remind me of Robin Williams – because they're flexible, adaptable and able to improvise on short notice.

They are proving their versatility as we transition away from coal toward burning cleaner fuels.

One of the great strengths of our thermal plants is their ability to quickly provide dispatchable power – especially during periods of high demand.

Thanks to our dedicated staff, they are still in excellent condition.

As many of you know, the Ontario government has directed OPG to stop burning coal by the end of 2014.

We have put together a plan and developed a schedule to make this happen.

When 2014 comes to a close, I can assure you, no OPG generating unit will be burning coal.

But we are doing it right. We are doing it in a way that allows us to *preserve* the flexibility and value our thermal units provide to Ontario.

Rather than just shutting all of them down forever, we are exploring the possibility of repowering some of them with cleaner biomass and natural gas fuels.

If successful, our biomass initiative – which burns fuels such as wood chips -- has the potential to help develop a whole new industry in Ontario.

As for natural gas, OPG has a good track record in developing gas generation – especially in partnership with others, as the Portlands Energy Centre demonstrates.

We are ready and willing to expand our role if requested.

Strategic Partnerships

In addition to making strategic investments, we're also focusing on strategic partnerships.

We welcome and want partnerships with a wide range of players so that we can maximize the value we deliver.

In Durham region, for example, OPG has joined forces with approximately 70 other organizations under the Durham Strategic Energy Alliance.

With our DSEA partners, we are helping to transform Durham into Ontario's energy centre and a leading-edge technology "cluster."

Businesses, municipalities and post-secondary institutions like Durham College and UOIT are all working together to provide timely, sustainable and reliable energy solutions.

I know the Toronto Board of Trade sees economic clusters as a major tool in helping Toronto become a globally competitive city.

The DSEA fits right into that function.

We're also developing innovative partnerships with First Nations, contractors, suppliers, biodiversity groups, -- and even the electric vehicle sector.

Transportation is one of the last major areas of society not powered by electricity.

Our involvement here could help encourage a major shift to a future of significantly cleaner air and lower greenhouse gas emissions.

Not to mention providing a vast new source to be served by our own low cost, low emission hydro and nuclear baseload generation.

We also have numerous community partnerships.

OPG delivers value to the communities where we operate through:

- the goods and services we purchase;
- the taxes we pay;
- the local causes we help support, and what I am most proud of....
- the volunteerism and involvement of our employees.

Add this up, and it represents billions of dollars.

Looking at just one of these categories -- goods and services bought in Ontario -- OPG purchases added up to over \$3.3 billion in 2010.

Innovation

Another area where we strive to deliver value is through innovation.

As the largest operator of CANDU reactors in the world, we have either developed or implemented a number of innovative processes that we can market internationally – adding to Ontario’s prestige as a high-tech jurisdiction.

We are one of the first companies to use Body Wave technology -- which enables technicians to remotely execute commands using only their brain waves.

This technology was recently profiled in *Time Magazine* and the *Globe and Mail*.

We’re also at the cutting edge of initiatives in technology, in biodiversity, in procurement and partnerships....and in finance.

Our Finance department just won a major international award for developing an innovative new way to finance our Lower Mattagami Project. The bottom line is that it’s allowed us to save Ontarians more than \$50 million in project costs – a great example of how being innovative creates value.

And when I’m talking about value, I’m also talking about delivering specific value to the electricity consumers of Ontario.

Cost Control

Hence our focus on cost-control.

In 2009, we deliberately deferred seeking a rate increase from the OEB due to the recession and its impact on Ontarians.

Over a two year period in 2009/10, we cut costs by \$87 million following a review of our support functions.

In 2010, we achieved another \$100 million in internal costs savings.

We also identified reductions totalling \$600 million in our 2010-2014 business plan – many of which have been achieved.

Our focus on being strategic and innovative and cost-effective has helped us deliver value in another area.

We are Ontario's low cost producer.

Ontario consumers pay less for power from OPG than they do for power from any other generator in the province.

What's more, we're the only generator whose rates are set through an open, transparent and very public process before the Ontario Energy Board. Under this process, the people of Ontario can – and do – hold us accountable.

And every penny of net income that we earn – every penny – stays right here in Ontario. It's being reinvested in our energy infrastructure and contributing to our society's well-being and growth.

I'm proud that as a public power company, OPG has the opportunity to provide value in today's demanding economic climate. That's what a public power company should do.

Challenges

Our task going forward is to make sure we continue to deliver value.

It won't be easy.

OPG is generating less electricity than in the past, which has impacted our revenues.

At the same time our costs are rising as we undertake to invest the billions of dollars in new generation development and asset modernization that Ontario needs.

There's also the hard reality of Ontario's economic situation. Finance Minister Duncan and premier McGuinty have made it very clear.

Growth is slowing and fiscal restraint must be the order of the day.

The recent Speech from the Throne revealed that major agencies such as Hydro One and OPG will be expected to find a combined \$200 million in savings by 2014.

And...there's the whole issue of rising electricity prices. Pricing are rising – due in part to the need to modernize Ontario's aging electricity infrastructure. This will be a huge undertaking, the cost of which the Government's Long Term Energy Plan estimates at \$87 billion.

The Chair and CEO of the Ontario Energy Board, Rosemarie Leclair, raised a legitimate question in a speech she gave last week at the Ontario Energy Network

How can we help keep increases under control for the consumer while investing the billions required in infrastructure improvement?

I agree with the OEB Chair.

A balance needs to be struck between these two imperatives.

OPG will work on this issue to help achieve this balance

At the same time, we will continue to play a moderating role with respect to price. Overall, we receive a lower price for the electricity we generate than other generators receive. Without this moderating effect, prices would be higher.

We are also focusing on keeping our own financial house strong.

Our options include exploring new revenue opportunities – such as expanding our role in natural gas generation.

We will also continue our laser-like focus on costs and efficiency.

To this end, we have launched a major transformation of our business organization.

It includes a leaner senior management structure and a more simplified corporate framework – one example being the merger of our hydro and thermal businesses.

Our new structure is going to help keep OPG on track in delivering value to Ontarians.

It's going to help make us more cost-efficient, nimble and responsive to the economic and market realities.

And it's going to show the people of Ontario – our shareholders – that we understand the pressures they are under in today's economy and are doing our part to make Ontario better and stronger.

So that the next time we go to the OEB and ask them to review our operations and consider a rate increase, people will know – and we will know – that we are taking meaningful action to keep our costs low.

Conclusion

In this way, we believe we can continue to deliver value to the people of Ontario.

Value has a lot of meaning at OPG. It means:

“Value” as a responsible steward of Ontario’s generating assets;

“Value” as a job catalyst and job creator;

“Value” as a trusted partner and engaged community member;

“Value” as an innovator...and

“Value” as the low cost producer of safe, reliable power

We are going to do whatever it takes to continue delivering value.

Thank you very much.