

Notes for Remarks by

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Ontario Power Generation: Performance, Projects and Prospects

Introduction

Good afternoon and thank you for the opportunity to talk about OPG.

My talk has three parts.

- First, I want to review the circumstances of OPG around the time I became CEO.
- Then I want to spend some time talking about our 2006 performance.
- Finally, I want to conclude with comments on some of the opportunities in front of us.

Looking Back

I joined OPG as a Board member in December 2003 – one of four directors at that time. The company had an acting CEO, and we had inherited a company with many challenges.

We were under significant financial stress, due in part to a rebate mechanism that drained about \$1 billion annually from our bottom line and cash flow.

Our shareholder, the Ontario government, was frustrated with us over schedule delays and cost overruns connected with the return to service of the Pickering A, Unit 4 reactor.

The problems with Unit 4 seriously damaged OPG's credibility as a manager of a large-scale capital project.

All of this resulted in bad press for the company as a whole.

In addition to these issues, a major decision was pending on the restart of OPG's Pickering A, Unit 1 reactor.

It was soon apparent that OPG's major operational problem was to improve the company's lagging nuclear performance.

It was also obvious that we had to strengthen the company's governance, especially the Board's nuclear expertise.

We set about doing that – by attracting several excellent people with superb credentials in managing nuclear operations. We also attracted directors with substantial expertise in areas such as regulatory affairs, finance, and the management of capital intensive businesses. OPG now has a solid Board with strong governance skills.

In early 2005, the Board began a CEO search. I was named to the position in May, 2005.

My priorities were first to stabilize the company; then to focus it on performance improvement; and hopefully, along the way, improve the company's reputation.

An important issue at the time was the security of Ontario's future electricity supply. The perception was that we were poor project managers. We resolved to change that. Since then, we successfully brought back Pickering Unit 1. We improved our generation performance. We received a clear mandate from our Shareholder on our roles and responsibilities; and we have moved ahead on three important electricity projects. We are increasingly being asked by our Shareholder to undertake new generation projects.

We also made some tough decisions, chief of which was not to refurbish the Pickering A, nuclear Units 2 and 3. Technically, we could have restarted the units safely, but they needed too much work and investment. This decision surprised some people. But let me assure you that as a commercial company, we won't proceed on any projects that do not have a sound business case. This is a prudent, responsible approach that will deliver long-term benefits.

We made a good start in 2005. During 2006, we made even more progress towards becoming the company we need to be.

Key Metrics from 2006

The past year was a good year for us.

We earned \$490 million in net income in 2006 compared to \$366 million in 2005. Our financial performance has improved significantly since 2003.

We generated 105 TWh of electricity in 2006, compared to 108 TWh generated in 2005. Our 2006 production represented about 70 per cent of the electricity consumed in Ontario.

Production rose at our hydro stations due to higher water levels and effective maintenance.

Production also rose at our nuclear stations, benefiting from the contribution of Pickering A, Unit 1. Progress sometimes has bumps along the way, however, and our nuclear operations missed their overall production target for the year as a result of several longer-than-planned unit outages.

Fossil output fell, but this was no reflection on the plants themselves, whose reliability rose for the second year in row. Our lower fossil production was due to lower electricity demand and the increased production from our nuclear and hydro assets which allowed us to run our fossil plants less frequently.

In terms of the price we receive for our production, we continued to moderate the price electricity consumers pay, although our impact was less than in 2005. This was because the average market price declined with the demand decline.

Despite the challenges of lower prices and lower demand, our overall performance was respectable and, in several areas, quite good.

This is no accident. We work hard to keep our assets efficient and reliable.

Hydroelectric Generation

Our hydroelectric stations are a good example. Their reliability is excellent. In 2006, they were available to produce electricity 93 per cent of the time – three per cent better than the industry's five-year average. This strong performance is due in part to Mother Nature's help, but it's our doing as well. Equipment replacement, upgrades and enhanced maintenance practices enable us to maximize efficiency at our hydro plants.

These measures also increase our electricity capacity. We invest an average of \$160 million annually on hydro improvements and upgrades. Since 1992, they have added 425 MW of new capacity to our hydroelectric supply – including 25 MW in 2006. Further upgrades will contribute another 116 MW by 2015. Count it up, and it's equivalent to building a new generating station the size of our Sir Adam Beck 1 station on the Niagara River.

I want to stress that we never allow our focus on efficiency to compromise safety. In fact, OPG's nearly one thousand hydro employees have to date gone more than 1.4 years without a lost time accident – the first time an OPG business unit has achieved such a milestone.

Nuclear Generation

Our nuclear stations also produced more electricity in 2006 than in 2005. In fact, our nuclear plants have produced more electricity every year since 2003. This is mainly because of the return of Pickering A, Units 4 and 1.

While our 2006 performance was an improvement, as I said, it was still below target due to extended planned outages. We are focused on improving our nuclear outage performance in 2007.

OPG directs significant effort and investment towards improving its nuclear performance. Each of our nuclear stations has a specific strategy to improve performance tailored to the unique characteristics of each plant – the oldest of which first entered service 35 years ago.

In 2006, we undertook six planned outages to improve plant condition and reactor performance. Despite the fact that some of these outages went beyond schedule, they accomplished much good work.

Our Unit 1 Fall outage at Darlington was an excellent example of planning and execution coming together. We completed more than 11,000 separate tasks, inspected 8,000 boiler tubes and performed our first ever multiple feeder tube replacement – an important step in enhancing Darlington's reliability and performance.

Darlington finished the year with an 89 per cent unit capability factor. This is very good performance even though it was slightly lower than what Darlington achieved in 2005. Two of Darlington's units had capability factors of 97 and 99 per cent respectively. By way of contrast, the U.S. nuclear industry's unit capability factor was 90 per cent in 2006.

Fossil-Fuelled Generation

Turning to our fossil-fuelled stations, I was particularly pleased with the strong environmental performance of OPG's fossil fleet in 2006. The stations collectively achieved their lowest recorded emission rates for nitrogen oxide and sulphur dioxide, reducing OPG's contribution to smog. In addition, carbon dioxide emissions fell by 35 per cent compared to 2000 levels. Our CO₂ levels were slightly below the 1990 level.

A skeptic might say this was partly because our fossil plants were not called upon to produce power as frequently as in previous years because of lower demand. That's true.

But what's also true is that past investments in emissions-reduction technologies – such as low-nitrogen oxide burners and Selective Catalytic Reduction equipment – plus our considerable investments in lower-sulphur coal, have helped to reduce our smog and acid gas emissions.

We are also investing and experimenting in burning “carbon-neutral” biomass fuels to help reduce CO₂ emissions at our coal-plants. While this technology is still in its infancy, we believe it's important for us to be involved as part of our focus on being an environmentally responsible company.

We will continue to make prudent investments, and to operate our fossil-fuelled facilities in an efficient and environmentally responsible manner, for as long as they are needed to help meet Ontario's energy needs.

New Supply Projects

I would like to move now from our focus on performance improvement to what we are doing to help ensure the province has an adequate supply of electricity for the future. OPG has undertaken several new generation projects designed to help meet this goal, some of which the Ontario Government has directed us to undertake.

What's significant about OPG's approach to these projects is that unlike our predecessor company, Ontario Hydro, we are not doing any of the construction work ourselves. Instead, we act as the project manager, tendering the work out to third-party contractors. They, in turn, assume much of the risk and responsibility for completing the projects on time and on budget.

The Niagara Tunnel is being built by Strabag Inc of Austria. Work is well underway. The machine that's excavating the tunnel – known as “Big Becky” – has progressed 300 meters on its 10.4 kilometer journey underneath the city of Niagara Falls. The project got off to a slow start, but Strabag has confirmed it will be able to finish the job on schedule and on budget in late 2009. Strabag also expects progress to pick up once Big Becky encounters Queenston shale, which is a softer kind of rock. When complete, the Tunnel will increase the average annual output at our Beck Hydroelectric complex by about 14 per cent.

Another of our generation projects is the 12.5 MW Lac Seul generating station in northwest Ontario, being built by SNC Lavalin Inc of Montreal. Scheduled to be in service by the end of 2007, the station will be the first new OPG hydro station to come on-line in Ontario in 13 years.

We're also building relationships with First Nations communities. We're doing this by addressing past grievances and working to develop commercial partnerships based on mutual trust, and respect. These are central to the success of a number of potential hydroelectric projects we are exploring in northern Ontario. They include:

- the Lower Mattagami project – a potential 450 MW upgrade of four OPG Hydro stations in Northeast Ontario now well into the “definition” stage of development; and
- four other potential hydroelectric projects, also in the definition stage, representing about 55 MW.

In addition, we're joining forces with other energy providers such as TransCanada Energy. We're partnering with them to build the 500 MW Portlands Energy Centre in downtown Toronto. Progress has been good. The site is cleared and construction is well underway. By the summer of 2008, Portlands should be producing its first power using simple cycle generation. The following year, it should be ready to generate power using combined cycle generation.

We are also partnering with Enersource Hydro Mississauga Services Inc. to explore the possibility of developing a gas-fuelled generating station at the site of the former Lakeview coal-fired station, which closed in 2005.

Nuclear Refurbishment and New Nuclear

On the nuclear front, we have been directed by the government to undertake two major projects that have significant potential for Ontario's future electricity supply. One is the potential refurbishment of our Pickering B nuclear station. The other is our involvement in the process for the potential construction of new nuclear units at an existing facility.

The refurbishment of our Pickering B nuclear station is subject to a business case analysis, which is now underway. We'll take a recommendation to our Board next year. An environmental assessment process – including public consultations – is also underway and its results will be incorporated into the business case. Refurbishment will not take place without a solid business case to justify it. Following a decision on Pickering, we will begin work on assessing the business case for refurbishing our Darlington units.

With respect to new nuclear, last September we applied to the Canadian Nuclear Safety Commission, for a Site Preparation Licence for new nuclear units at our Darlington Nuclear site. This set in motion the Federal Environmental Assessment process, which is now underway. Public hearings also began in January before the CNSC in Ottawa. It will take anywhere from 10 to 12 years to bring a new nuclear generating station into service, including all the regulatory approvals.

Opportunities and Challenges

Now that you have an overview of our performance and projects, I'd like to make some final observations.

First, I think we have the business focused on the right areas. These include nuclear plant improvements, our steadily increasing nuclear production, the continued reliability of our hydro and fossil stations, and the progress we have made in moving forward on a number of new generation initiatives.

These and other successes have earned us a measure of credibility from our stakeholders. Increasingly, we are being asked to develop new generation sources for the Province.

We're also building confidence by being open, transparent and accountable. I'm proud of that. We regularly update the community, our regulators, our shareholder and the public on many aspects of OPG's operations.

- You can go onto our Web site and see the directives we have received from the Ontario government.
- We report in detail on our environmental performance every year in an annual publication.
- We report on our many community initiatives in our Corporate Citizenship report.
- A few days ago, we published our third Performance Report. It highlights many aspects of our 2006 operations, giving people a better idea of how we are performing. I even brought copies with me. These reports are also on our Web site.

I am especially proud of our employees. OPG has many experienced and skilled professionals, and we invest significantly in programs to expand their skills and opportunities. In October, OPG was named one of Greater Toronto's Top 50 Employers. One of the reasons cited was that we were leaders in job opportunity. But it's the employees who deserve the credit.

My second observation is that despite our successes, we must continue to improve.

In addition to improving our planned outage performance, which I already mentioned, we need to improve aspects of our workplace safety performance. We are focusing on our accident severity rate, which in 2006 was significantly worse than our 2005 performance in certain areas. Despite this, OPG's overall workplace safety record is a good one. But when your goal is zero workplace injuries – as ours is – you are not satisfied with anything less.

Like many other companies, OPG also has challenges looming in the area of staffing. Between now and 2011, up to 35 per cent of our workforce could retire.

We have a focused strategy to replace our retiring workers. But the competition will be intense as other power companies – as well as the oil industry in Western Canada – compete with us for talent. Staffing is therefore a major priority for us, especially in the nuclear side of our business where we need specialized talent.

Finally, we face financial challenges. We expect a continuation of low market prices and slow growth in Ontario electricity demand in 2007. We will be increasing expenditures in our relentless efforts to improve station reliability and performance. As well, we are being called upon to undertake new generation projects. These factors will put pressure on our financial performance.

In closing, let me say once again that I am proud of OPG's performance. We have achieved much in the past two years and look forward to continued success and achievement in the future. But we have no delusions. We know we face challenges in continuing to improve performance and managing new supply projects.

We know our shareholder and the people of Ontario expect a lot from us. We are determined to meet their expectations.

Thank you.