

Notes for Remarks by

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Thank you for the kind introduction. It has been two years since I last spoke to this prestigious institution. I ended that speech by saying I would appreciate the chance to return to report on progress. Well, a lot has happened since then. And a great deal of change is coming, both for Ontario Hydro and for Ontario's electricity customers.

Ontario Hydro has been through some tough times since I was here last. We face a very challenging future. Today, I will describe our challenges and how we will overcome them. But first, I want to talk about something that I am very proud of.

I want to salute our employees, the men and women of Ontario Hydro, who have gone well beyond the call of duty to get power restored in eastern Ontario. Our people have been working 16-hour shifts for almost three weeks, sometimes in awful conditions, to restore the damage inflicted by the ice storm. I know how incredibly demanding this has been on our employees. They haven't wavered in their resolve. I am extremely proud of them.

We have never seen such destruction in our 91-year history. At the height of the storm, 122,000 Ontario Hydro electricity customers, mostly in rural areas, were without service. And a similar number of municipal utility customers were affected.

The ice storm damaged 40 percent of our transmission and distribution system in eastern Ontario, including 250 large towers and 7,000 poles. We have replaced more than 350 kilometres of line.

To get power restored as quickly as possible we mobilized more than 1100 Ontario Hydro staff. Our people were supplemented by 800 staff from 90 different municipal electric utilities, and crews from as far away as Manitoba and British Columbia. They did in days what would normally take weeks or months.

I am happy to say that, with the exception of some customers in remote areas, all the power is back on. But we will not cease our emergency operation in eastern Ontario until every customer has their electricity back.

The ice storm tested our emergency capability to the limit. Now, we are looking at what it has taught us. We want to be even better prepared should we ever suffer such a destructive event in the future.

The ice storm also showed what Ontario Hydro is capable of when we work towards a common goal. The dedication of our employees makes me optimistic about our future.

Today I will bring you up to the present on other recent developments, such as our programs for improving our nuclear performance and for managing our environmental impacts. Then I will tell you about the changes that Ontario Hydro and the province's electricity customers can look forward to over the next few years, as competition and choice are introduced in the electricity sector. Finally, I will say a few words about our labour agreements.

I'll begin by describing how we are improving nuclear performance.

There are three basic facts about our nuclear program that I will share with you, to help you better understand our recent nuclear decisions.

The first fact is that Ontario is very dependent on nuclear power. When all 19 of the province's nuclear reactors were operating, nuclear power supplied two-thirds of the electricity we used each day. By way of comparison, France is the only G7 country that is more dependent on nuclear power.

The decision to be so reliant on nuclear power was made many years ago and can't be changed overnight. The decision was based on the undeniable advantages of nuclear - when it is working well it is cheap to run, it doesn't produce air pollution, and there is no problem with fuel supply and cost. It was the right decision when it was made. And it may well be the right decision for the future.

The second fact about our nuclear program is that its performance has deteriorated for several years now. Instead of making the global top ten list that shows the annual operating reliability of the world's reactors - a list we dominated in the late 1970s and early 1980s - our nuclear reactors are now closer to the bottom compared to other world nuclear programs

Let me illustrate this point. In 1994 our nuclear reactors ran at 73% of capacity, declining to 70% in '95, then 68% in '96, and finally just below 60% last year. Despite efforts to improve performance, we have suffered a 22% decline over four years. It's my view that to a large degree the performance decline resulted from a poor maintenance program on our part, and a lack of adequate operational focus.

The third fact about our nuclear program is that the performance decline, if unchecked, could have had an effect on safety margins. Now, let me be very clear on this point. I am not saying our nuclear units are not safe. They are safe, or we would not run them. What I am saying is that when operating performance worsens, safety will eventually be affected if actions are not taken. An efficient operation is a safe operation.

So, to sum up, we are very reliant on nuclear power, its performance has slipped, and we must address this to ensure that safety will not be affected.

It is within this context that Ontario Hydro's Board of Directors took a tough, radical, but absolutely necessary course of action.

Last August we announced the results of a very thorough study that uncovered the causes of the decline in nuclear performance. We also announced our plan for restoring the performance of our nuclear fleet. We will not be satisfied until our nuclear performance is in the top quartile compared against all the other world nuclear reactors.

Our plan was recently reviewed at the request of the Provincial Government by an all-party Select Committee of the provincial Legislature. The Select Committee met over several weeks through last Fall, and heard many witnesses. Their conclusion was, and I quote: "The Select Committee agrees that the ... Plan should be accepted as is."

They did, however, add a number of caveats to their general endorsement. For example, they asked us to keep an open mind about options for achieving nuclear recovery more quickly and cost effectively, without in any way sacrificing safety or the environment. They asked us to be mindful of how our plan affects nuclear communities, particularly those around our Bruce site. And they asked us to make regular reports on our nuclear recovery progress, which we are doing already in publicly-released monthly "report cards".

Our nuclear recovery program will be expensive - in the billions of dollars - but I would like to make it clear that these are expenditures that should have been made in the past. We are paying today for yesterday's lack of diligence.

Some commentators have suggested that we should not have to sink all this money into our fixed assets. In fact, we are not investing in fixed assets..

Our expenditure on nuclear recovery actually represents how our bottom line will be negatively affected over the next few years compared to our previous budgets. While a small portion of our expenditures will be of a capital nature, most of the money will be spent for replacement power we will generate at our fossil fuel plants.

A significant amount of the expenditure will be for retraining management and staff, and implementing improved work processes and practices. We are doing a major overhaul of how we operate our plants, focusing on upgrading the skills and discipline of all our people.

Finally, the cost of nuclear recovery also reflects how unrealistic our operational planning and budgeting have been in the past.

So once and for all we have stopped applying band aids. We will do whatever is necessary to restore nuclear performance to its former excellence.

Our plan is to concentrate our resources on improving the performance of our 12 newest nuclear reactors while laying-up the seven older reactors. We will use the employees from the laid-up nuclear units to help restore the performance of the 12 units we will keep going.

At the beginning of this month, we safely laid up the four older nuclear units at our Pickering A station. The workers at these nuclear units are already starting on the recovery of the newer Pickering B reactors.

This leaves the three older units at our Bruce A station still to be laid up. One of these reactors has been shut down for several months now, because of problems in its steam tubes. It will remain out of service.

As for the other two - Units 3 and 4 - we would like to keep them operating, because they would generate electricity at a lower cost than all available alternatives. Moreover, we are aware of the importance of our decision on the Bruce community.

However, a number of criteria must be met if we are to keep the units operating. First and foremost, we would have to be sure that we could continue to operate the units safely, that safety margins would not be eroded, and that risks would not be increased. We would also have to ensure that the operation of these two units would not jeopardize our ability to recover the performance of our 12 newest nuclear units. And finally, continued operation of Bruce Units 3 and 4 must be a cost-effective decision for all our customers.

Another option for our nuclear program is the possibility of a public and private partnership. You may have recently read media reports of British Energy's interest in talking to us. We met with them recently. They are not looking to buy specific nuclear reactors, but rather want to explore the option of a public/private partnership with Ontario Hydro. We will continue to explore this option as we move ahead with our recovery program.

That brings you up to date on our nuclear recovery program, and leads me to my next topic - how we are managing our environmental impacts.

This is another key priority for Ontario Hydro. I'll describe three major environmental initiatives we have underway.

First, we have established environmental management systems across the company to ensure we are consistently managing the environmental effects of our operations. We have chosen the international standard, ISO 14,000, as the benchmark for our systems.

I'm proud to say that our Darlington nuclear station was the first generating station in the world registered against ISO 14,000. Since that initial certification in January 1997, we have successfully undergone an audit by a registered third-party auditor to retain our certification. Other parts of Ontario Hydro will be pursuing ISO 14,000 registration over the next year.

We have enshrined our environmental commitment in a policy statement. Our Board of Directors recently reconfirmed our environmental policy which states that environmental compliance is a minimum requirement, but that our objective is to go beyond compliance with laws and regulations.

The second program I want to tell you about relates to our responsibility to better understand our environmental liabilities, such as any contamination of our properties because of past practices. As business people you are aware it is not uncommon for industrial sites to have areas of contamination, especially for companies in business as long as we have been. We have fast-tracked a project to identify, and assess, possible contamination on all our properties across the province. We will work with the Ministry of Environment and local communities if any clean-up or remediation is required.

A third example of our environmental commitment is our response to the issue of global climate change. Ontario Hydro has been a major contributor to Canada's progress in reducing greenhouse gases. However, recent events will challenge us as we continue to manage our emissions.

One of these events was the recent Canadian pledge at the Kyoto conference that our country is now committed to a more aggressive greenhouse gas reduction plan. We will do our part in supporting this pledge.

We are also challenged by our need in the short term to increase our use of fossil generation, because of the lay-up of our nuclear units.

Nevertheless, we are committed to stabilizing our net greenhouse gas emissions at 1990 levels by the year 2000, and to reduce emissions by a further 10 percent by 2005.

Our plan has a number of components. For example, we are improving the energy efficiency of our operations. We are helping our customers use less energy where this is cost-effective. And because some of our customers have an interest in "green energy", we are looking at small-scale renewable energy options. Each of these parts of our plan helps reduce our electricity generation at our fossil fuel stations.

Managing our environmental impacts and restoring nuclear performance are essential to our future success. And the future shape of the electricity industry recently became much clearer, as a result of the provincial Government's White Paper on how competition will be introduced to the electricity market.

The White Paper announced the province's intention to introduce new legislation that would create a competitive market for electricity supply for all customers, beginning in the year 2000. Those who were present here two years ago heard me recommend exactly that.

Briefly, here's how it will work. Electricity will be available both through long-term contracts and on a daily market. Every customer, from the largest industry to small households, will have access to any electricity supplier. They could stay with their current supplier. Or they could have an electricity broker arrange supply for them. Or they could buy it themselves.

The most important point here is that, for the first time, electricity customers will be able to choose their supplier. And monopolies will be replaced by markets.

It's my firm belief that we will all benefit from competition. Competition will put pressure on electricity suppliers to keep prices low. It will result in a much larger menu of services and products. Innovations will come more quickly with competition.

Ontario Hydro will compete in the new market as two new commercial companies. One of these companies will generate electricity, taking over our generation facilities. It will be one of the largest electricity generators in North America.

The second company will include our current electricity sales and delivery functions. The transmission and distribution wires of this new company will form one of the largest electricity grids on the continent, with 30,000 kilometres of high voltage and 100,000 kilometres of low voltage wires.

The one part of the current electricity system that will remain a monopoly will be transmission and local distribution wires. They will be much like telephone lines and gas pipelines, which became common carriers when their industries were opened to competition. The monopoly wires will be under regulatory pressure to deliver electricity as efficiently as possible.

This second company formed from Ontario Hydro will also include competitive businesses. They will be under pressure to find the most efficient ways to meter, bill customers, buy and sell power, and ensure customers have the service they want. Otherwise, they will lose their customers.

The White Paper also calls for the creation of an independent market operator. This will be a new, non-profit corporation that runs an electricity exchange, dispatches electricity based on lowest bids, and arranges settlements between buyers and sellers. Its job is to ensure that competition develops quickly and fairly.

The process of creating the new market is beginning. Last week, Energy, Science and Technology Minister Jim Wilson announced the establishment of a Market Design Committee, which will help iron out the complex technical details of how the new market will work. The committee includes customer and industry representatives. Its job is to advise the Minister on the structure, governance, rules, and procedures required for an electricity marketplace, and any substantial obstacles to achieving them.

From this brief description of how competition will be introduced to the electricity industry, you can see what I meant when I told you at the beginning of my talk that a great deal of change is coming. But it will be good change - not just for Ontario Hydro, but for all our customers, and for our province.

The final subject I want to address today, and in some ways the most important, is our need for new labour agreements. I don't really have the time to do justice to this topic, so I'll just touch on it.

It is absolutely essential to Ontario Hydro's future that we have much more flexibility in our labour agreements than we now have. Right now it is very difficult for us to ensure we have the right people in the right place at the right time.

As one example, our labour contract makes it almost impossible to move people with the right skills to where we need them, because the agreement is based on company-wide seniority. When we find ourselves with too many workers in a certain location or in a specific job class, we have to address the imbalance through a very cumbersome process.

Our agreements are unwieldy, costly, and don't reflect our current challenges. They have to change if we are to successfully improve our nuclear performance, and if we are to take on all comers in a newly-competitive marketplace.

Ontario Hydro now finds itself in the same situation that a lot of industries have had to deal with. For example, the railroads, post office, and private-sector companies such as auto manufacturers and the steel companies have all made significant changes to their collective agreements.

We have heard both public and private commitments from our union leaders. They agree that it will be necessary to re-examine our collective agreements to help ensure our future success.

So far, however, we haven't achieved much progress.

Ontario Hydro needs to be able to deploy its workers to where they are needed. This is the goal that I am committed to achieving.

Let me close by saying I appreciate this opportunity to bring you up to date on Ontario Hydro. We have faced some tough times over the past couple of years, and we still have many challenges ahead. But we know what it takes to succeed.

We will recover our nuclear performance to its former excellence. We will deliver competitive prices, maintain a very reliable electricity supply, show environmental leadership, and never waver in protecting public safety.

We are determined to win your business. And we plan to hold on to it.

Thank you.