

Ontario Energy Network, Networking Lunch
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Innovation and Leadership
Delivering the Electricity Grid of the Future.

Check Against Delivery



Introduction

My thanks to Gord and the OEN.

This is such a great forum for sharing ideas and getting us to think about our challenges and opportunities as an industry.

Since we were together last year so much has happened and is happening.

Last year, I talked about the issues and opportunities that I saw as being critical to our mutual success.

I told you then that the most important thing I could do as CEO of Hydro One was to create an environment in which we could get the job done.

Everyone was, and still is, counting on all of us more than ever before, I might add!

Working together as an industry, we've made solid progress in the past year on so many fronts we've completed numerous milestones on our way to renewing our infrastructure.

That all sounds like ancient history now.

What a difference a year makes.

The introduction of the Green Energy Act (GEA) has caught everyone's attention right across North America.

Ontario is in the forefront of transformation and the people in this room -- we are the ones who are going to make it happen.

A very exciting time at Hydro One, we are definitely up for the challenge.

Today, I wanted to share with you *what* we've been doing at Hydro One and how our preparations to date have positioned us for this new future.

Maybe just a bit of context at this point.

You may recall that I spoke last year about the need for renewal of both our infrastructure and our people.

At that time, we had a lot of work on our plate and it was clear we needed a solid framework within which to get the work done.

So, shortly after my OEN speech last year, we embarked on our annual strategic planning process at Hydro One and were challenged by our new Chair and our Board to take a fresh look at our strategic objectives.

When we finished that process, we realized we had all the elements in place to carry us forward but that we had to place greater emphasis on innovation and a greener future.

We chose, as the theme for our strategy: Innovation and Leadership: Renewing Ontario's Power Grid.

Strategic Approach

The importance of having a clear strategy in place cannot be underestimated.

It is key to being ready for the future that the Green Energy Act promises.

Our Strategy challenges us to be the very best at what we do and to show innovation and leadership in everything we do, from safety to customer, from reliability to the environment.

With that as the backdrop, I'd like to take you through why I believe we're ready to deliver.

Skilled people

A critical underpinning of our Strategic Plan is people.

We've spent a great deal of effort in the past year in organizing ourselves to get the job done and will continue to refine our organization to be even more nimble and well-coordinated than ever before.

I spoke at length on this subject last year and today, I only want to say that now, more than ever, we need the right people, with the right skills and training, to get the job done.

A safety-conscious and motivated workforce is critical to our industry's future.

At Hydro One, we have not reduced our efforts to attract and retain knowledgeable and skilled employees.

In fact we have stepped up our efforts and I know you'll agree with me that this is one of the most important tasks at hand for all of us in this industry.

Established Relationships

The second aspect I touched on last year was the importance of established and productive relationships with industry partners.

This, too, is critical to being able to achieve not only our strategic objectives but our many goals under the Green Energy Act.

I'm pleased to acknowledge the work with our many partners at our sister companies, the EDA and the LDC community, as well as our regulator, the OEB.

We also have many other partners without whom we could not get the job done.

From suppliers of materials to service providers to educational and research institutions – everyone contributes to our success.

One group that I'd particularly like to mention here is the investment community.

Without the confidence of the investment community, Hydro One's ability to get the job done would be severely hampered.

As you will know, the transmission business is capital intensive.

It is, therefore, extremely important that Hydro One maintain continuous access to cost-effective debt financing.

We must therefore have the confidence of the financial community in our business.

Our track record of delivering projects on time and on budget, as well as our strong financial performance have positioned us well with the investment community.

Hydro One has a demonstrated capability to access capital markets even in today's extremely volatile conditions, in large measure due to credit quality.

Over the last few years, Hydro One has seen positive changes in our credit ratings from each of the three major credit rating agencies.

We have the ability to raise capital at very attractive rates at a time when many cannot and in the last five months alone, we raised over a billion dollars.

Maintaining the confidence of our investors in the years to come is clearly critical to our success and to being ready to go.

Suppliers

Another key relationship that we've been working on is with our suppliers.

Last year, you may recall that I was complaining about the long lead times for critical materials and equipment.

Since then, we've made headway in that regard and we've put in place strategic procurement policies and processes to be ready in time for the long list of projects currently underway and those in our plans.

Strategic procurement helps not only us but also our suppliers, as they can better understand and plan for our longer-term needs.

These relationships are key since we compete globally for the materials we need to maintain our existing assets and to build new infrastructure.

Although we have seen a softening of demand for commodities in countries like China and India, there continues to be a strong demand for critical transmission materials, such as power transformers.

It's no secret that everyone has aging infrastructure and everyone is preparing their grids for distributed generation!

Our requirement for transformers, breakers, insulators, conductors has increased to the point where our procurement spend on these materials is double what it was five years ago.

With our new strategic approach to procurement, and with the softening of demand for commodities, we are in a much better position today than we were a year ago.

Stakeholders

I'd like to wrap up my remarks on relationships with a few words on our stakeholders.

Whether it's our relationships with industry stakeholders, our regulator or the communities in which we live and work, it is critical to establish a solid working foundation with our many stakeholders.

Consultation is key to establishing and maintaining good relations.

Over the past year, we've worked hard to ensure we build strong ties with many stakeholders whether it's on the Bruce x Milton project or the Midtown Toronto Refurbishment Project.

We've established successful relationships with these communities and others.

We invest a great deal of time and energy together to ensure that communities and stakeholders are allies, and not adversaries, in the development process.

We also continue our important work the First Nations and Métis people in this province, who are key stakeholders in many of our projects.

That doesn't mean we've been able to satisfy everyone on our projects but at the very least, we understand and respect each other, and can hopefully find a way forward.

After all, these communities and other stakeholders have to live with our projects for a long time after they're built and we have a responsibility to be good neighbours.

I think it's important to mention some of our successes to this point as they lay the groundwork for the future.

We've built a number of large projects over the last three years including Parkway TS, Toronto Downtown Tunnel, the interconnection with Hydro-Québec and we continue our construction at our Claireville and Cherrywood Transformer Stations to relieve congestion on our system.

There are numerous other projects that we've undertaken as well to improve reliability and address increased loads.

We are also well on our way with the approvals for the Bruce x Milton transmission project and hope to begin construction in the near future.

Readiness for GEA

To this point, I've talked about our strategy, our people and our relationships and how they set the framework for getting the job done.

Now I'd like to focus more specifically on how we're positioned for what the Green Energy Act promises.

Distributed Generation

First, we've done a lot of work on connecting distributed generation or DG to both our transmission and distribution systems.

Last year, we connected 20 generation projects totalling 1736MW across Hydro One's transmission and distribution systems.

Nonetheless, it has been extremely challenging as the provincial distribution system in particular was only designed for one-way flows to our customers.

The fact that our systems aren't currently capable of enabling all DG has created issues for and dissatisfaction with Hydro One and others.

The good news is that investments we are making to strengthen our grid should help us overcome a lot of these issues and improve customer satisfaction.

We've learned a lot during the Renewable Energy Standard Offer Program, which has caused us to organize ourselves in a way that will enable us to assess and build the many renewable energy projects that will be connecting to our distribution system in the very near future.

Not only have we worked diligently to clear the backlog of projects that are eligible for assessment, we are also actively working on the connection of approximately 50 distribution projects (420 MW) and 5 transmission projects (1285 MW) that have come to us and are ready to connect this year.

We're also building the telecommunications infrastructure (protection, monitoring and operation) that is required, in addition to the electrical connection, to connect DG on our distribution system.

Ultimately, we are ensuring the continued reliable and safe operation of the distribution system.

This leads me to Smart Meters and Smart Grid.

As an industry, we're putting Ontario on the technology map of North America.

Our work on Smart Meters and the Smart Grid is an example of how working together across our sector has led to a common understanding and strategy to the smart grid.

This is not only innovation but true leadership.

I would like to take a moment to compliment the Smart Grid Task Force for moving the understanding of these important technology innovations along.

The increase in smaller and more distributed generation on our system in and of itself make it more important than ever before to implement Smart Grid concepts which will support reliable and safe distribution systems.

There is no doubt in my mind that these innovations will lead to greater productivity.

The Smart Grid will automate our distribution system to provide better real-time monitoring and control, automatic restoration and optimized operations.

We are determined to reduce our costs while improving customer satisfaction with these new technologies.

Smart meters have driven the necessary communications infrastructure we require for a multitude of applications including time-of-use rates, distributed generation and smart distribution systems.

All of this contributes greatly to a culture of conservation in this province.

Before going live the multitude of applications, we need to test how they work together and that's where our idea of having a Smart Zone comes into play.

In the very near future, we'll be sharing with you our plans for our first Smart Zone in one of our communities.

We're very excited about the opportunity to enhance our work with our customers on conservation and efficiency.

While new technology is exciting, we can't forget about the basic infrastructure that supports that technology.

New Build

I'd now like to turn to New Build.

Hydro One expects that substantial new infrastructure will be needed and quickly.

In fact, we've been obtaining approvals for new infrastructure for the last few years, all of which support the reliable operation of our systems and enable renewables and DG.

We've been working very closely with the OPA and IESO to identify the work that needs to be done on our transmission and distribution systems to enable DG.

A lot of good work was done in the IPSP and our planners have taken that and developed the more detailed plans required to enhance our systems to improve transfer capability and reliability.

To get all this work done, it goes without saying that we also require sufficient Construction Capability.

At one point in the history of Ontario Hydro, we were one of the largest construction companies in the Country.

Now we work with many engineering and construction companies and have a robust construction contracting service.

The relationship we have with these firms and their familiarity with our system position us very well for what is to come.

We not only have a scalable engineering and construction enterprise, we have skilled people who have been putting shovels in the ground and are ready to do it again with future projects.

Our ability to move quickly to construction, combined with our strategic procurement activities, allow us to get out of the gate quickly and contribute to our ability to deliver projects on time and on budget.

Sustainment

It's so easy to get excited about new build and the Green Energy Act is clearly going to drive a lot more new infrastructure.

But we cannot afford to lose focus on what supports the new infrastructure – our existing assets.

And while it is incumbent upon us to build new transmission to enable DG and renewables, it is equally important to maintain our existing assets, so we can ensure we meet our obligations around safety and reliability.

So on the sustainment of our assets, we've been very busy, too.

On the distribution side of the house, we are increasing forestry preventive line clearing by about 20% in 2009.

We are also increasing pole replacement this year by about 30%.

On transmission, Hydro One is making investments to replace various transformers, breakers and associated equipment at many transformer and distribution stations across the province.

We are replacing end of life conductor and structures on transmission lines between Belleville and Port Hope to ensure long term supply and reliability for our customers.

We are also repairing extensive conductor damage on lines between Sarnia and London over the next three years.

And because station maintenance is a critical part of this equation, we will be undertaking major station reinvestment efforts at Abitibi Canyon Switching Station, Pinard TS, Beck #1, Orangeville TS, Nanticoke TS, Claireville and Gage TS in the coming years, to name just a few.

All of this work is critical to being ready and I can assure you that we will continue our approach to asset sustainment even as we increase our focus on new build.

Conclusion

I've covered a lot of ground with you today and would like to sum it all up by saying yes, indeed, what a difference a year makes.

The GEA is a critical element of this government's plan for the environment and the economy.

The GEA will transform our industry and our customer relationships. Expectations for both Hydro One and the industry at large are very high.

Even though so much has changed and will change, everything we've been doing has really prepared us for this new future.

What I wanted to leave you with today is a strong message that while there is much to do, Hydro One is ready and we have the right people to do the job.

We are innovating and applying new technologies prudently and we will continue to drive efficiencies and improvements in our business.

We are aware that renewal comes at a cost and that we need to balance service and cost. We also have to be as productive as we can while maintaining our focus on reliability.

The people in this room and in our companies represent some of the best talent in the world.

This is our opportunity to show leadership if anybody can do it, we can.

There's no doubt in my mind that we are the ones to make it happen.