Notes for Remarks by

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Good afternoon. Thank you, Gord, for that kind introduction. It's a pleasure to be here at the OEN luncheon. I've attended several of these, but this is the first time I've been on this side of the podium. Thank you for the invitation and opportunity to talk about OPG.

I read the other day that the marriage of celebrities Kid Rock and Pamela Anderson had recently ended. This tragedy happened after only four months and despite the fact that they had exchanged marriage vows on at least three separate occasions with great fanfare.

Before you draw the conclusion that I'm a fan…I want to make this one point. It's easy to say you're committed. It's a lot harder to be committed.
And make no mistake, OPG is committed to being a successful company that delivers value to the people of Ontario.

With that thought as my background theme, I will cover three things today. I'll update you on our performance. I'll talk about the progress we've made in meeting the expectations of our shareholder; and I'll discuss some of the challenges we face going forward.

Performance
Starting with production performance, we've done well so far this year. In the first nine months, our lower cost nuclear and hydroelectric businesses produced more electricity than they did in the first nine months of 2005. Fossil production declined, due to lower electricity demand and higher nuclear production this year compared to 2005.

Even though performance at our nuclear stations has been strong, we believe we can do better. Thus far this year our nuclear stations have produced about eight per cent more electricity than in the first nine months of 2005 primarily as a result of the return to service of Pickering A, Unit 1.

While nuclear production has increased, unit capability has declined slightly at two of our nuclear stations – Darlington and Pickering B -- mostly due to longer planned-outage durations. We are taking steps to improve our planned outage performance, while at the same time continuing to maintain quality work and safety standards.

Our hydroelectric stations continued to have impressive reliability levels, with availability factors well above 90 per cent during the first nine months of the year.

OPG's lower fossil production, combined with environmental improvements to our fossil stations, resulted in a significant decrease in emissions from these facilities. In the first nine months of 2006, sulphur dioxide and nitrogen oxide emissions were both down by 25 per cent compared to the first nine months of 2005. Overall, our fossil operations are producing as much electricity as they did in the 1980s but with 65 per cent fewer acid gas emissions.

Reliability at our fossil operations also continued to improve. We measure fossil reliability using a metric called the Equivalent Forced Outage Rate or EFOR. The lower the EFOR, the better the reliability. Our fossil-fuelled stations achieved an EFOR of 12.5 per cent for the first nine months of 2006, compared to 15.8 per cent for the same period last year.

Our fossil, hydroelectric and nuclear stations performed exceptionally well during the mid-summer heat wave from July 31 through August 2. Ontario demand reached a record 27,005 MW. During this period, OPG employees and stations produced a total of 1.12 TWh, representing about 70 per cent of this record demand. This was an example of clutch performance and teamwork at OPG.

On the financial side, OPG's year-to-date net income at the end of September was $509 million. This compares to net income of $206 million over the same period last year. It's important to note that our 2005 financial results were impacted by one time costs which reduced net income for that year. Taking these one-time costs into account, our 2006 net income for the first three quarters is comparable to that of the equivalent period for 2005.

What's Expected of OPG

Overall, I believe our performance so far this year has met the expectations of our shareholder, the Ontario Government.

There is no doubt that our shareholder has high expectations of us. And so does the public.

We are expected to be financially prudent. In April 2005, the government introduced a new regulatory structure for OPG. The government established regulated prices based on a five percent return on equity (ROE) covering about 60 per cent of our generation (nuclear and baseload hydro). Our shareholder acknowledged at the time that the standard ROE for North American utilities was at least double what OPG would receive. It further stated that a five per cent ROE would put, and I quote, "significant discipline on OPG to contain costs and improve overall operating efficiencies." Since then, we have delivered on this expectation.

Eighty-five percent of our remaining generation (fossil and non-baseload hydro) was placed under a revenue cap, currently at 4.6 cents per kilowatt hour. Revenues earned by OPG above the cap are rebated to Ontario consumers. The cap was also designed as an incentive – and again I quote – "to contain costs and enhance performance." Again, we have delivered.

In the summer of 2005, we reached an agreement with our shareholder on a mandate for OPG. Under this mandate, the government required us to focus on our core business of electricity generation. It required us to focus on continuous improvement – especially improvement in our nuclear operations. We were also directed to give priority to hydroelectric expansion to help meet Ontario's energy needs.

Since then our shareholder has asked us to take on other generation projects. Although not specifically part of our original mandate, we have been asked to develop gas generation at the Portlands Energy Centre. We have also been asked to explore new gas-fired generation at the Lakeview site.

In addition, we have been asked to examine the possibility of refurbishing the Pickering B and Darlington nuclear stations – as well as building new nuclear units.

Summing up, our shareholder expects us to be:

- Cost effective with a strong commercial discipline and focus;
- Performance and improvement driven – especially with respect to nuclear; and
- Engaged in developing new sources of electricity supply for Ontario.

In each of these areas, we are meeting expectations.

Financial discipline and cost control
In terms of financial discipline and cost control, we are demonstrating that we have the capability to operate within our means, and effectively manage our projects.

A notable example of our success as a project manager was the return to service last year of Pickering A, Unit 1.

An example of our commitment to cost control was our decision last year not to proceed with refurbishing of Pickering A, Units 2 and 3. It was tough call, but the right call from a cost perspective.

Performance and Improvement
In the area of nuclear improvement, each of our nuclear stations has a strategy to improve its performance. These initiatives require significant investment in terms of time and money.

At Pickering B, for example, we just completed inspection and maintenance on the last of the station's 1,554 fuel channels. This painstaking work has been ongoing since 2002. It was completed as part of Pickering's Unit 7 outage.

This outage is the last in a series of extended planned outages of about 100 days, involving thousands of separate tasks, undertaken at the station. Over the next two years, we intend to substantially reduce these planned outage durations. Our ultimate goal is to reduce planned outages at Pickering B to 40 days.

At Darlington, our goal is to move to an outage cycle where units have planned outages every three years. Currently, Darlington units have planned outages every two years.

These initiatives will enable the two stations to operate longer and produce more electricity.

OPG benchmarks its nuclear performance against the best operators to provide ourselves and others with a yardstick to measure our progress and with insights into how to further improve performance.

Our initiatives are paying off. Over the past three years, OPG's total nuclear performance has steadily improved. In 2003, our combined nuclear capability factor was about 78 per cent. Today, it's 86 per cent – with four units operating with capabilities of over 95 per cent.

But it's not just about nuclear performance. We're also maintaining and improving our hydroelectric and fossil-fuelled assets.

The average age of our 64 hydroelectric stations is over 70 years. Sustaining their performance over the long term requires regular maintenance and equipment replacement. This strategy is working. Our hydroelectric plants compare very well against other hydro operators in North America.

We are also adding capacity to our hydro plants. From 1992 to 2005, improvements have added 400 MW. By 2015, we will add 150 MW more through upgrades. Prudent investments like this ensure that these valuable assets continue to serve Ontario for many generations.

Our fossil-fuelled stations as well demand ongoing maintenance and investment to keep them running reliably. This contributes to better environmental performance. As mentioned earlier, our stations today are producing more electricity with significantly fewer acid gas emissions that they did 20 years ago.

Our fossil operations rank in the top 30 per cent of 470 North American coal-fired units in terms of low nitrogen oxide emissions; and they are better than average in terms of their sulphur dioxide rates.

This is largely due to investments we've made in such environmental improvements as:
- lower sulphur-content coal,
- high efficiency burners,
- Flue Gas Desulphurization, and
- Selective Catalytic Reduction equipment.

In the future, our environmental investments may increase in light of the recent discussion paper released by the Ontario Power Authority. It suggests keeping a significant portion of the province's coal-fired generation operating through 2014.

Jurisdictions in the U.S. are moving ahead rapidly with investments and environmental improvements to their fossil stations. OPG needs to increase its investments in this area if we expect to keep pace with the environmental improvements at U.S. plants. The challenge will be to find a way to pay for these improvements to our coal-fueled plants.

Without the means to finance these improvements, our fossil fleet risks falling very quickly from the top third to the bottom third of environmental performers.

Developing New Supply

Now let me tell you about some of the new supply projects OPG has been asked to undertake.

These include the Niagara Tunnel, which we're building at a cost of almost $1 billion, to expand renewable energy output at the Beck generating complex. The Tunnel will run under the city of Niagara Falls and is currently being dug by the largest hard rock tunnel boring machine in the world.

Another supply project is a new 12.5 MW generating station being built at Lac Seul, in northwest Ontario. The cost of this project is $47 million.

We are looking at the feasibility of over a dozen potential hydroelectric initiatives in northern Ontario. One of these is an ambitious, 450 MW project on the Lower Mattagami River that the government has directed us to move up from "concept" to "definition" stage.

In partnership with TransCanada Energy Ltd , we're building a new gas-fuelled generating station – the Portlands Energy Centre in Toronto – which I mentioned earlier. The capital cost is estimated at $730 million. This facility came about when the Provincial government directed the Ontario Power Authority to negotiate with the Portlands Energy Centre for 550 MW of new gas-fired generation. This generation will help meet downtown Toronto's forecasted energy shortfall in 2008.

In addition, OPG was asked to explore the potential development of a gas-fuelled generating station at the site of our former Lakeview coal-fired plant, which is currently being decommissioned. We're partnering with Enersource Hydro Mississauga on this project, and it has the support of Mississauga Mayor, Hazel McCallion.

Everyone here knows Hazel, don't they? She's the little-known politician who was barely elected Mayor of Mississauga recently -- with only 90 per cent of the popular vote -- for the 11th time.

Consistent with our focus on efficiency and cost-control, we are building these projects differently from the way our predecessor, Ontario Hydro, did. Instead of being heavily involved in their design and construction, we're building "turn-keys" and using partners and third party contractors to help disperse risk.

In addition, many of these new supply projects require us to be creative. For example, we have developed an approach to First Nations involvement in our hydro projects based on consensus-seeking and possible equity participation. Such an approach is important to the success of our northern Ontario hydroelectric development initiatives.

Meanwhile, on the nuclear side, we have been directed by our shareholder to undertake feasibility studies for the refurbishment of our Pickering B and Darlington stations. In response, we have launched a study and are involved in the federal environmental assessment process for refurbishing Pickering B. Any decision to refurbish must be based on a sound business case. Our Board will be making its refurbishment decision in early 2008.

We have also been directed to initiate a federal approvals process, including an Environmental Assessment, for new nuclear units at an existing site. In response to this directive, we have submitted an application for a Site Preparation Licence to the federal regulator for a new nuclear power plant at our Darlington nuclear generating station. We also are in the midst of a public consultation process to inform community members and get their input.

While decisions have yet to be made, both refurbishment and new build nuclear enjoy impressive support within their communities.

This is also true with respect to our proposal to build and operate a Deep Geologic Repository for the long-term management of low and intermediate level nuclear waste. This facility represents an important piece of infrastructure in the energy supply equation. The proposed facility will be located next to our Western Waste Management Facility on the Bruce site in Kincardine, Ontario.

We have consulted extensively with local communities on this project, which Kincardine residents endorsed in a poll conducted by the municipality. Currently, we are conducting geological studies at the site. Our plan is to start construction in 2012, pending approvals and licensing by regulatory agencies, and have the facility in-service in 2017.

If you would like more information on our performance, I encourage you to go to OPG's website. You can also read our Performance Report. I brought lots of copies with me as you probably noted.

The bottom line is that we are fulfilling our mandate and living up to the shareholder's expectations. We have community support for our projects. We are doing what we have been called upon to do; and we are doing what we said we would do. What's more, we are doing it with a high level of commitment. OPG is an exciting place to work, and I credit our people for our progress.

Challenges

Progress, however, does not imply smooth sailing.

Like all companies, OPG has challenges that must be proactively managed and addressed. These include challenges in areas such as demographics, recruitment, and technology -- as well as on the regulatory and environmental fronts.

Equally important, we face financial challenges which may impact our ability to implement our mandate and meet the expectations of our shareholder.

First, electricity demand is weakening – especially among electricity intensive sectors. On a year-over-year basis, Ontario has seen 12 consecutive months of decline in total demand for electricity. This situation is impacting our revenues.

Second, the price of electricity is weakening. The average weighted hourly price of electricity is at its lowest level since market opening five years ago. This also negatively impacts our revenues.

Third, we continue to be expected to deliver new supply projects, which place an increasing pressure on costs.

Solutions/recommendations/observations

Given these financial challenges, a gap is developing between our many commitments and our ability to pay for them.

If this continues, one of two things will happen.

One, our ability to finish our supply projects and take on new ones will be jeopardized -- because we lack an adequate revenue stream.

Two, we can continue to undertake these projects by taking on more debt to finance them -- thereby burdening Ontario in the future.

There is, however, a third way.

We can close the gap and achieve a better balance between our many project commitments and our financial viability.

A good way would be to enable OPG to receive a rate of return greater than five percent on its baseload or “regulated” generation.

Initially designed as an incentive to make OPG more cost effective and performance driven, the five per cent ROE has outlived its purpose. We ARE cost effective and performance driven. We continue to demonstrate that.

Canadian electricity transmitters, distributors, and oil and gas pipeline companies have ROEs between nine and 10 per cent.

OPG’s ROE on its regulated assets is only about half that – even though we have a greater operating risk profile, and we compete with other electricity generators.

The situation needs to be addressed. I am confident it can be satisfactorily resolved working with the Ontario government and at the OEB.

Over the past few years, OPG has demonstrated its ability to be operationally efficient, commercially focussed and performance driven. We have shown we are good project managers and that we can deliver – even on the most complex initiatives. We are building new supply and exploring additional opportunities in this area, as is expected of us. We are proud of these achievements, and we want to continue to pursue them.

With an adequate revenue stream, we will be able to pursue them – to the benefit of all Ontarians.

Thank you.