

Remarks for Laura Formusa,
President and CEO, Hydro One
To the Canadian Nuclear Association
February 28, 2008

It's a pleasure to have this opportunity to speak to the Canadian Nuclear Association and your guests.

Events such as these remind me of just how many of us have enjoyed long and committed careers in the energy sector – it is a particular pleasure to see so many familiar faces and old friends here this afternoon.

Hydro One has long enjoyed an important and productive relationship with our colleagues in the nuclear industry and I want to build upon that relationship.

We see you not just as a generator or a connection point but rather as an extremely important customer and energy partner.

We might do very different things, but we deal with many of the same challenges. And really - we each can't do our jobs without the other.

Common Values, Goals and Challenges

I believe that at the basis of our strong relationship are the common values and goals that we share:

- values like our absolutely resolute commitment to safety and to a cleaner environment and,
- goals like a reliable and sustainable energy supply at reasonable prices.

At Hydro One, we are investing heavily to facilitate the proposed increase in nuclear output here in Ontario. We are undertaking the largest transmission and distribution work program in decades.

We are focused on continuous improvement and productivity, as I know we all are. This is particularly important to our customers and ratepayers.

I noted that Murray Elston, in his invitation to this Seminar mentioned that we “will focus on the environment and the issues surrounding the challenges of providing affordable and reliable energy.” These are challenges that we all share.

Everyone is counting on all of us. So, I look forward to strengthening the bond between us and continuing to cooperate with each other in the years to come. Like the theme of our seminar today, we must “go the distance” together.

The purpose of my remarks today is to give you Hydro One's perspective on the challenges we face as your transmission company.

Our task is to connect our transmission network to new and clean sources of generation, on time and in lock step with the deadlines of our generators.

I have always said that the technical issues are all within our capability to solve.

Siting transmission is the tough part.

Tough, but not insurmountable in my mind and at Hydro One we *are* getting the job done.

I want to provide some perspective on some of our challenges and to outline the strategies we have for addressing these issues.

The Four Challenges

Let's be honest: It is an understatement to say that the landscape ahead of us is challenging, but as my Board said to me, challenges are really opportunities. So today, I want to talk about FOUR different opportunities for the wires world as I see it.

First –The Reason for our Existence: Meeting Demand for Electricity

Energy demands continue to grow and in some cases outpace output, making us constantly recalibrate our plans for meeting these demands. Our customers expect and deserve reliable and affordable power, when and where they need it. In order to meet this responsibility, none of us can afford to fall behind or get distracted. We have an opportunity to renew our system in a way that makes the best of what we've got and at the same time, anticipates the latest developments in technologies.

Second – Long Lead Times

We face long lead times with many administrative and regulatory hurdles to complete projects on time. All the while, we must work to ensure that communities and stakeholders are our allies and not adversaries in the development process. We must understand and accept that people simply want to protect their rights and their properties. So the opportunity here is to engage with the communities in which we work and at Hydro One, we're doing some exciting things in this area. The nuclear industry in Ontario is a leader in this regard and we can all learn a lot from their community relationships.

Third – First Nations

With respect to siting and constructing transmission projects, we must develop, and have been developing, a new and collaborative relationship with First Nations and Aboriginal groups. I think there is significant opportunity for fresh and creative approaches to working together to successfully align our interests.

Fourth – The People

This is something that keeps us all awake at night -- attracting and retaining the people we need to get the job done and ensuring a reliable supply of the materials and commodities we need to build.

I might have to use the C word here. These are formidable challenges, but the good news is, we have the collective will and expertise to meet these challenges and create huge opportunities -- people are counting on us to fulfill our mandate to ensure that homes, businesses, schools and hospitals of Ontario and this country have a secure and stable supply of energy in the years to come.

We have to renew our workforce – it's as simple as that.

First Challenge: Meeting the Demand

Of the four opportunities I've just listed, ensuring that we continue to meet our changing and growing energy demands is the most fundamental. This is really about you, the customer.

Canadians expect reliable, affordable, and increasingly, clean power. You make it, we deliver it. Sounds simple but consider this – 100% of power interruptions is ultimately due to the performance of transmission or distribution assets. You need excellent performance from our assets.

Asset performance impacts nuclear performance

Three weeks ago we detected a piece of equipment which was about to fail and asked Bruce Power to reduce output so we could fix it.

We're spending \$110M at Cherrywood TS to increase transfer capability AND to reduce Darlington's exposure to forced reductions due to failure of our assets.

We support WANO audits (World Association of Nuclear Operators) because your operations depend on the operation of our assets.

We sign operating agreements with you which require us to report asset performance to you.

That's what we do in the now or in the present. We also have to, as a company and as an industry, anticipate needs that will arise five, ten -- even fifteen or twenty years from now.

When decisions are made with respect to supply, we have to be up and running and ready to do *our* job – namely to ensure that this power gets from Point A to Point B, quickly, safely, and efficiently.

Bruce to Milton

As most of you know, we're working to construct a new double-circuit 500 kV line on a widened existing transmission corridor between the Bruce Power facility and our Milton switching station.

In fact, one of my first jobs as a young lawyer with Ontario Hydro back in 1980 was working on what we called the "South-Western Ontario" project, helping to get approvals for the first lines out of Bruce.

Hydro One proposes widening the existing 500 kV corridor and constructing the new line along the north and east side of the widened existing corridor, to avoid establishing a new right-of-way.

We like to refer to the line as "Ontario's newest clean energy corridor", connecting both renewable and nuclear power.

We plan for it to be in service by December 2011.

This project represents an investment of over \$600 million in Ontario's transmission system.

We are pleased with the progress we are making on this project, but we know there is still much work to be done and this project is only one piece of the many things we must do to meet Ontario's supply goals.

IPSP

As many of you may know, Ontario's Integrated Power System Plan, or the "IPSP", is the first comprehensive electricity supply plan for the province in 15 years. We at Hydro One have worked closely with the OPA in the development of this plan.

It's a plan that includes a call to restore nuclear capability for base load by refurbishment or new build and, by 2025, it calls for 47% of the province's electricity supply to be provided by nuclear power.

The IPSP also calls for \$4 billion in new transmission investment.

This represents a huge opportunity for Hydro One, and we're ready for it.

Second Opportunity: Long Lead Times - Regulatory Processes and Stakeholder Engagement

I wouldn't want to downplay the complex engineering and construction elements of building transmission, but in fact most projects, even the technically challenging ones, have technical solutions.

Our company and our entire industry, are smart enough to solve any technological issue.

Getting to the point where we can actually start building is the biggest challenge we and other transmitters face.

This is why it is critical to have a well thought out stakeholder engagement strategy.

Hydro One comes to this challenge with many years of experience and deep knowledge within the organization of how to approach stakeholders in a meaningful way.

Hydro One's approach to its stakeholders is built on a few basic principles:

- establish and communicate the need for the project
- involve stakeholders early and often throughout the process
- demonstrate respect for stakeholders by being flexible and creative
- accept the right of stakeholders to be engaged in a meaningful way, and
- always maintain a high level of transparency.

Clearly, stakeholder engagement is a critical part of our approvals process and it is a responsibility we embrace.

As a transmission project proponent we accept the fact that we must satisfy various requirements; that the project is needed, that alternatives have been considered, the most cost effective option is chosen, that landowners have been engaged and their impacts assessed and where possible, mitigated.

Regulatory approval processes can be lengthy and challenging – on this, we can all agree.

But we also know and understand that these processes are necessary to protect the public interest.

The process works when we work together, as an industry, with our regulators and stakeholders. This cooperation is the foundation on which we expect to continue to build.

We have to work within the system we have. And, through innovation, creativity, respectful relationships, and honest dialogue, we can and must make it work – for everyone.

Communities

I firmly believe that as an industry we can do much more to ensure that our communities are allies, not adversaries, in the development process.

We simply can't take the "we know what is best for you" approach.

Successful companies will be the ones who can build meaningful relationships within communities – and not just when it comes time to build something.

Most importantly, successful companies will be those who do the best job aligning the needs of the community with the project.

Clearly there will be instances where we will need to rely on arbitrators to ensure that issues are resolved fairly and equitably (as a lawyer, this can be my only answer!) But there will continue to be opportunities to resolve issues in a harmonious and mutually beneficial way as well.

Third Opportunity - First Nations Issues

I want to touch on another important issue and something I see as a real opportunity – relationships with First Nations and Aboriginal Communities.

When I took over this job, one of our most pressing challenges was ensuring we undertook meaningful consultation with First Nations potentially impacted by the Bruce-Milton line.

We recognize the unique needs of First Nations and Aboriginal communities and are interested in building a lasting partnership with these communities.

At Hydro One, we have been taking a long-term approach to our relationship with First Nations and aboriginal communities.

We have a solid, albeit short, history of working cooperatively and productively with aboriginal communities across Ontario.

We also recognize that aboriginal communities contain a much underutilized resource – a human resource.

We share a demographic challenge in this industry, to recruit staff to replace the large number of expected retirees over the next few years.

Aboriginal communities tend to have the opposite demographic profile (large youth populations) and are under represented in our workforce.

We are working very hard to change that.

Sioux Lookout Aboriginal Management Board Initiative

Just recently, we began to pilot a partnership with the Sioux Lookout Aboriginal Management Board and the Power Workers Union to train aboriginal people so that they have the skill sets to do our type of work. We are excited about this initiative and hope to roll it out on a broader basis in the future.

It is incumbent upon all of us to work with First Nations, regulators, and governments in a transparent and coordinated fashion to consult at every critical stage of a project. Simply put, our duty to consult is non-negotiable.

I believe we are making progress. In fact, Assembly of First Nations Chief Phil Fontaine recently said, “Hydro One is doing it right.”

The time to build these relationships is now.

Fourth Opportunity: Competing in an International Marketplace

The fourth major challenge I see is the challenge of competing in an international marketplace – a marketplace for human resources and talent, and also for supplies, raw materials, commodities.

The fact is that we’ve been very lucky. Demographics have worked in our favour.

The so-called “baby boom” generation has provided us with an enormous pool of talented and ambitious women and men.

But this demographic curve is taking a turn, and in the years ahead it’s going to be a struggle to find the people we need to do the work that our customers demand.

There’s a lot of talent out there. But the demand for this talent, particularly in the technology sector, is even greater, and it’s getting bigger by the day.

It’s a seller’s market.

And we’re not just competing with one another, and with other provinces, we’re competing with the rest of the world.

Engineering is a language spoken everywhere, and the best and the brightest can take their skills to any corner of the globe.

To ignore this challenge – to take our eye off the ball – would have enormous consequences.

To get ahead of this curve, Hydro One has taken a leadership role, both within and outside the company.

College Partnerships

We have partnerships with four Ontario colleges to fund curriculum development and ensure that graduates will leave school with the skills we need.

The company will contribute up to \$3 million for scholarships, program development and equipment over four years for programs that will train people as technicians, technologists and trades positions in the electricity sector.

Apprentices

Hydro One has also undertaken ambitious trades apprenticeship programs for several years.

Since 2002, almost 600 people have been hired into apprentice jobs in our various trades.

Our efforts are ensuring that we're drawing from the widest pool of possible employees and reflecting the communities where we live and work.

With workforce renewal comes a huge opportunity to ensure our newest and youngest workers begin their careers with an absolute commitment to safety in the workplace.

Demand for Materials

And it's not just talent that we're competing for.

The demand for steel in countries like China and India has grown exponentially as these economies continue to grow.

Despite living in resource rich Canada, commodities are no longer something we can take for granted.

How do we make sure that we can compete in *this* marketplace?

Our requirement for transformers, breakers, insulators, conductors, and so on has continually increased to the point where our procurement spend on these materials in 2007 was double the total spend in 2003.

Four or five years ago we were able to secure the shipments of large auto-transformers locally in Ontario.

Today, most of these plants have closed and we are now sourcing some of our transformers from international sources.

We're also experiencing significant material cost escalations and longer lead times.

In fact, some major materials have increased in price to the point where they now cost more than 200% of the average unit price paid in 2003.

And we expect prices for raw materials like copper, aluminum and iron ores to continue to show significant escalation due to global demand.

And the truth is that, in this global marketplace, we are small players.

But the advantage we do have is that we have the skills to compete creatively, the knowledge to address challenge in innovative ways, and the experience to think quickly and act decisively.

By employing these skills, I'm confident that we will not only be in a position to meet these challenges, but to thrive and prosper in this changing environment.

Concluding Comments

Knowing that Ontarians and our industry partners depend upon us to deliver a precious resource drives what we do as well as how we do it.

As stewards of Ontario's electricity transmission system and largest electricity distribution system our role is clear: We must maintain operational excellence while working with our partners to ensure that electricity can be delivered safely, reliably and affordably for generations to come.

As a transmitter, we come to work everyday and put you, our customers, at the centre of every decision we make.

You are the reason we plan our projects so far in advance; ensuring that we can meet each and every regulatory test and keep projects on schedule.

You are the reason we are so deeply committed to consultation and due process -- because we understand that community acceptance is at the heart of any successful transmission project.

You are the reason we are redoubling our efforts with First Nations and aboriginal peoples because we know that new and creative approaches in these communities are key to our mutual success.

And finally, you are the reason we are working flat out to get ahead of the demographic curve because we want to have the best and the brightest energy professionals on our team to deliver the projects that are important to you.

We do this so that we can get the job done – so that we can deliver critical transmission projects when they are needed.
Today's energy executive has to have the grit, determination and the will to see major projects through to completion.

At the same time, we need to be open minded consensus builders who are sympathetic to the people whose lives our projects affect.

I am proud to count myself and the Hydro One team amongst you and I look forward to our continued cooperation.

Thank you