

PRESIDENT'S BULLETIN

OPG Value Compromised by Liberal Government Policy

Two recent reports concerning OPG - the external auditor KPMG 1999-2003 report and OPG's 2003 Financial Statements - highlight the importance of this company to the province's financial health and the price of electricity in Ontario. But, unless changed, current Liberal government policies will undermine this value and lead to significant supply issues and price increases.

Benefits to Tax Coffers and Electricity Customers

The KPMG report shows that since 1999, OPG has paid over \$6.7 billion to the provincial government and its agencies in taxes, water rentals and other charges, or in excess of 20 percent of the company's earnings during the same period. That average of an astounding \$1.344 billion annually includes over \$2.3 billion during the last two years offsetting the market price of electricity.

When market prices for electricity have averaged 5.2 cents/kWh PWU members at OPG have delivered 70 percent of the province's electricity at 3.8 cents/kWh for the majority of the company's output.

Setting the Right Priorities

The government must decide on its priorities. Neither raking off billions of dollars to offset taxes or artificially suppressing rates is in anyone's long term interests. A sustainable plan for reasonable prices is required.

Part of that plan is to learn from past mistakes such as the costly American-led nuclear recovery program that over-promised and under-delivered in regards to the plan's full costs. With hydro electric sites difficult to develop, nuclear power is Ontario's 'Niagara Falls' for the foreseeable future. After too many years of bad planning from external sources, OPG management has realized what the PWU has always known - that the use of internal resources leads to better forecasts and more realistic rehabilitation costs.

Liberal Coal Shut Down Policy Means Trouble

Liberal government policy is in deep trouble as evidenced by the 'fossil impairment charge' recorded in OPG's 2003 Financial Statements. This \$576 million write down

represents the government's latest support of the ill-conceived coal shut down planned for 2007.

As well as changing the pre-election Liberal policy that talked about the need for available supply before phasing out coal stations, recording this charge on OPG's books now considerably weakens the government's bargaining position for the construction of new facilities. Potential new generators know a third of the province's supply is gone in three years. From a new entrants' point of view that means big premiums and long term contracts. On the positive side, this leaves OPG as the best option for new supply development.

A Better Alternative

A shift from coal to natural gas generation (the least expensive available replacement for coal) would increase electricity prices by at least 15%, and there's no telling how much higher future electricity and natural gas prices will be thanks to this government-created supply crisis. Natural gas prices are continually increasing (over 60% in the last year) and are extremely volatile with no end in sight due to continuing short supply. These price increases will hit Ontario's economy hard, since energy (in the form of electricity and natural gas) is a significant cost factor to the province's industries. Taxes to support government, expenditures to support communities and jobs will be lost.

The PWU has been consistent in its objections to the Government's coal shut down policy. The PWU did not sign the Electricity Conservation and Supply Task Force because findings that showed a significant economic cost to coal shut down were not supported by the right recommendation to have the government change this policy.

Although prevailing wind patterns make American sources the largest contributor to Ontario's air quality issues and the transportation sector is the single largest Ontario-produced source of air emissions, upgrading coal stations with existing and emerging technology would dramatically reduce coal-related air quality concerns at a fraction of the cost of the alternatives. Some units at Lambton and Nanticoke have already been fitted with clean coal technology. New supply would then be available to meet increased demands instead of just replacing shut down coal stations.

Ontario Needs OPG

It's clear that Ontario needs OPG. For the last decade, OPG has continued to provide low-cost reliable power thanks to the diverse fuel mix and dedicated employees. Having OPG continue its valuable role will require proper funding, a considerably more stable operating environment and government policy in line with the average citizen's concerns about reliability, safety and price.

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