

STAKEHOLDERS ALLIANCE FOR ELECTRICITY COMPETITION AND CUSTOMER CHOICE

April 8, 2004

The Honourable Dwight Duncan
Minister of Energy
4th Floor
Hearst Building
900 Bay Street
Toronto, ON M7A 2E1

Dear Minister:

On behalf of The Stakeholders Alliance for Electricity Competition & Customer Choice (SAC) I am writing to you to comment on the report of the OPG Review Committee, delivered on March 18. Following on the heels of the KPMG Report, the OPG review Committee's findings addressed many concerns raised by stakeholders.

On governance, the Committee's recommendations reflect SAC's position as set out in our letter to you dated December 16, 2003.

SAC has argued that OPG and Hydro One should be managed by independent and responsible boards of directors. This Committee report endorses our position that these companies should operate in the public interest free of political interference. The government, as shareholder, may direct the overall policy direction for the companies, but the ongoing governance and management of the companies must be in the hands of capable boards of directors and executive teams.

The Committee report also recognizes the importance of having a board of directors with an appropriate mix of skills and experience, as well as stakeholder interests. We are pleased to see that the Committee shares our view that the government should select directors for OPG who, in combination, have the requisite qualifications in such areas as project management, corporate financial management, project finance, corporate governance, engineering, environmental regulation, regulatory affairs, labour relations, nuclear power and the energy industry, as well as attributes such as an established reputation for honesty and integrity. Clearly, the needed turnaround in the affairs of the company will be supported through tightly focused boards and management teams.

We also fundamentally agree that OPG should continue to operate as a commercial entity. Our view is that the panel's report is moving in the right direction, however, SAC believes that a

more appropriate structure would be to divide OPG into two or more separate companies each with their own board of directors, not divisions.

With regard to how OPG manages its business affairs, we remain convinced that it must not be inhibited in any way from looking at new and innovative ways to achieve its business objectives, including joint ventures, long term leases or management contracts, or other commercially-sound approaches. At the same time, SAC supports the Committee's recommendation that OPG investments should not act as a disincentive to private investment. To this end, there needs to be assurance that OPG projects will not be eligible for future public "bail-outs". This will help create the kind of rigour that needs to apply when investment decisions are made. Absent the discipline that a competitive market will provide on financial and operating decisions, this commercial discipline, will have to be provided through some other mechanism, such as a rigorous and transparent third party or regulatory overview of ongoing financial performance, relative to plan. Given that poor financial performance was the impetus for the appointment of the Committee, it is important that the appropriate project, performance monitoring and oversight creates the kind of financial discipline at OPG which applies to private sector investments. While not optimal, this oversight must be developed to ensure that taxpayer risk resulting from poor decisions is minimized.

Fundamentally, SAC remains committed to the precept that in the long run a truly competitive market is the best way to provide diversity of supply and reasonably priced energy as well as consumer choice. In the short run, it is essential for the economic future of the Province that OPG and/or its successor companies be well-managed and operated on a financially-sound basis.

In this regard, we look forward to your speech on April 15 laying out the government's vision and policy directions for further reforms to Ontario's electricity sector, and to an early opportunity to further discuss these important matters with you.

Sincerely,

David McFadden, QC
Chair,
Stakeholders Alliance for Electricity Competition & Customer Choice

cc: Hon. Dalton McGuinty, M.P.P. Premier of Ontario