

Can Nuclear Compete in the New Marketplace?

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Ontario Hydro has been preparing over the past three years for a fully competitive electricity market. Competition is inevitable and essential. We believe that all electricity customers eventually will be able to pick and choose their electricity supplier.

Change will occur because external pressures are building on the electric utility industry. All of the jurisdictions around us in the U.S. and Canada are swiftly moving toward competition. Our customers are also increasingly demanding choice, which they are now receiving in the natural gas, telecom, and other recently deregulated industries.

Customers will benefit as competition will tend to lower prices and force electricity providers to offer more innovative customer programs and services. We think Ontario Hydro will also benefit, since we would have new markets to sell into and new businesses to enter.

Competition will spur Ontario Hydro to continue to increase productivity and reduce costs. This is especially important to our nuclear operations, which represent about 60% of our generation capacity and our assets. Our focus is on nuclear performance, especially safety and operating performance.

The management of performance at our nuclear units has been well below our expectations, and past programs to address this have been slow in turning performance around. Peer reviews have pointed out how far we have to go to correct the problems at our nuclear stations.

We have taken strong measures to turn performance around. We are just finishing a comprehensive assessment of our people, our plants and every aspect of process performance at each one of our nuclear stations, led by a nuclear recovery team with a great deal of experience in turning performance around for other nuclear utilities. We will put an implementation plan quickly in place to redefine, redirect and renew our nuclear operations. By the year 2000, we will once again be operating our nuclear facilities at world class standards.

This is critically important, since all forms of electricity generation will be competing with each other on the basis of cost in newly-opened markets. Can nuclear compete? It's interesting that a majority of electric utility executives across North America are ambivalent on this question in a recent survey - 33 percent said nuclear cannot compete, and 23 per cent are not sure. At Ontario Hydro we count ourselves among the 44 percent who believe that

nuclear can and will be competitive. Because the performance of our nuclear units will have a major effect on the future health of Ontario Hydro, we simply cannot afford to fail.

Strong performance in our nuclear stations will give Ontario Hydro competitive advantages in the new market. Among utilities in the marketplace to the south of us, Ontario Hydro has the lowest marginal costs - partly because of our nuclear operations. The environmental benefits of nuclear will also continue to be an advantage, as governments become increasingly concerned about global warming and other types of pollution. There are few large-scale alternatives that have so few environmental effects as nuclear power.

In summary, the electric utility industry is changing radically and rapidly, with competition forcing a strong emphasis on improving performance, controlling costs and increasing productivity. Ontario Hydro's nuclear power plants must respond by improving performance so that they will be competitive against other forms of generation. Ontario Hydro will again attain world class nuclear performance, ensuring our success in the new marketplace.