



**Direct
Energy®**

Simple. Friendly. Direct.

**The Direct Approach
Remarks for Chris Weston, President & CEO, Direct Energy
to the Ontario Energy Association
Toronto, Ontario
November 4, 2009**

Thank you Elise, Scott and to the members of the OEA Board who are with us today. And to all of you for the typically warm Canadian welcome, which I greatly appreciate.

Having been in Canada for about four months now, my family and I are settling in and starting to pick up some of the local customs and vernacular. Double-Double.....subway, not tube.....and when confronted by a raccoon in Toronto, do not make eye contact, quickly turn and walk the other way. So you see; I'm catching on quickly.

When I'm not in Toronto at Direct Energy's head office, I am traveling around North America to the offices of our four business units. Direct Energy, for those who may not be familiar, represents a large part of the energy value chain – from wellhead to burner tip – operating on both the upstream and downstream sides of the equation.

We have more than 5 million customer relationships in Canada and the US through a range of electricity and natural gas products for residential, commercial and industrial customers...and we own one of the largest energy services businesses in North America.

All told, we're in 21 states and 10 provinces...and during the last nine years that we have been operating in North America, we've been involved in opening and supporting the development of competitive energy markets across Canada and the US.

As a result of this experience, I believe Direct Energy is well positioned to share some unique insights into what we have learned, and continue to learn, about competitive markets.

Today, I'd like to focus on four jurisdictions in various stages of development – the UK, which is home to our parent company, Centrica....then on to Texas, Alberta and finally, Ontario.

While I am new to Ontario, perhaps I can apply a fresh perspective on the state of the electricity market and its role in the economy.

These are challenging times for many jurisdictions, and Ontario is not alone in dealing with a large deficit, a shrinking tax base and a vulnerable manufacturing sector.

But given these sizeable issues, and the fact that some tough choices now have to be made about spending, I would suggest any option that sees greater private sector involvement in capital intensive areas like generation build should be the preferred route.

Ontario should take steps now to transition to a market that offers a stable energy supply, encourages conservation by both residential and business customers...and frankly, one that does not add to the already significant provincial debt by taking on the risk of large scale investment....something that private sector companies like Direct Energy are willing to do under the right market conditions.

That's why we believe competitive markets are the right way to go – and we're not alone.

Today, there are more than a dozen countries that have restructured electricity markets, including the UK, Australia, New Zealand and parts of the US and Canada.

In any of these markets, you only need to scan the headlines to see that – among the media, anyway – lower electricity prices are considered to be a key determinant of the success of competition.

And while markets like the UK have experienced a drop in prices, we believe that competitive markets are also working to serve consumer interests by balancing a number of priorities:

- Firstly, they help to encourage and reward conservation through effective price signals.
- Secondly, they provide consumers with an unprecedented degree of choice in terms of innovative products and services.
- And, lastly - they help to shift the risks associated with investment and the financing of advancements in technology from the backs of taxpayers.

While it's not easy to balance these priorities, of all the markets where we operate, the regions that achieve this approach effectively are the ones that take politics out of the equation and let the competitive market do its job.

So what of these priorities in the UK, Texas and Alberta? And how does this relate to Ontario?

I'll show a slight bias and start with the UK, which got off to an early start under Thatcher's direction.

Restructuring there brought significant benefits, most notably prices, which fell by around 30% in real terms. Large customers quickly learned to shop around, and competition ensured that there were good deals. Small customers also caught the switching bug – 54% have done so at least once.

And they certainly benefited - as I have already noted, prices fell by about 30% over the first seven years. I think you'll agree that was a strong outcome.

What's more, the market has been driving forward with innovation. Last October, the British government announced plans to rollout 45 million smart meters for gas and electricity, for all customers by 2020.

This is a massive undertaking that is being supported by competitive energy providers like our sister company British Gas. Our colleagues at British Gas have the largest smart meter trial in the UK, converting nearly 50,000 domestic and business customers to the new technology.

By allowing competitive suppliers to deliver smart meters to consumers, the government is helping to ensure that companies like British Gas will be responsible not only for installations, but will also have both the incentive and the tools for maintaining active relationships with customers.

A well-structured wholesale market...downward pressure on prices...a commitment from the government not to intervene when things don't get off to a smooth start...and the involvement of the private sector in terms of investing in the rollout of technology advancements. These are some of obvious benefits for the UK, which I believe we should note here in Ontario.

Turning to North America, Texas is often cited as the best example of how competitive electricity markets can foster choice and innovation, as well as a greater degree of private-sector investment in generation.

Just to give you some sense of the difference between the energy industry in North America and the UK, there are five times the number of households here.....annual power consumption is twelve times greater.....and there are at least 120 regulatory jurisdictions, compared to just one in the UK. It's certainly enough to keep you awake at night.

So as I speak to the evolution of the markets over here, please note that I do understand the magnitude of the task at hand.

Now back to Texas, where a measured, phased-in approach to competition resulted in product innovation, coupled with robust infrastructure, balanced consumer protection requirements and active market policing.

And the result? Nearly 50% of all customers – more than 3 million people – have taken advantage of the opportunity to switch to a competitive provider.

Texans who switched have more than 96 products to choose from, including 23 different renewable options. And while they are exposed to market pricing, they have many options in how they manage price volatility.

In spite of very vocal opponents, market mechanisms and price signals are robust in Texas...and retail choice did not result in the demise of social and economic goals relating to energy efficiency, renewable resources or vulnerable customers.

Instead, new mechanisms have resulted in the protection of all customers. DE's half a million dollar Neighbour to Neighbour fund, for example, assists low-income consumers each year with payment assistance and discounts during the highest consumption months.

Competition has also helped to drive robust energy efficiency and demand-response programs, not to mention dramatic investments in renewable energy resources.

For example, there has been more wind power generation and associated capital investment in Texas than any other state and these trends continue.

In fact, in 2006 Texas moved ahead of California to lead the U.S. in wind generation. Today, there are 8.5 GW of installed wind generation capacity making Texas the US leader in terms of the integration of renewable resources. The state has benefited from the introduction of cleaner energy sources, lower emissions and improved air quality.

These are all enviable achievements and Texas has done it on the back of private sector investors, not taxpayers.

Alberta is another deregulated market that has experienced significant private sector investment in generation.

In the 10 years following the opening of the market, 4,000 MW of new generation capacity have been installed in Alberta, representing an investment of some \$4 billion. 40% of the power plants built in Canada in the last 10 years are located in Alberta and every last penny was funded by investors – not taxpayers.

An interesting statistic for you: In 1993, all of Alberta's generation was owned and operated by three companies. Compare that to 2009...there are now 12 major generators and nearly 130 companies with more than 315 generation units.

Today, Alberta's energy market is working for many reasons. They've stayed committed to an open and competitive system, and as a result have enjoyed new product choices. What's more, they have also encouraged investment in generation to keep pace with one of the country's fastest growing power demands.

While competition is moving through its infancy, and facing some growing pains along the way, it is having a clear impact in the energy markets of the UK, Texas and Alberta in terms of customer choice, energy conservation and private sector investment....the priorities I set out earlier.

Each of these markets is underpinned by clear price signals and regulatory stability, the type of stability we would like to see in all the markets where we operate.

There are many jurisdictions in Canada, most specifically Ontario, where we would consider investing more in innovation and generation. In fact, Direct Energy has a multi-billion dollar growth strategy that is focused on dramatically increasing the amount of energy we generate ourselves.

As you can appreciate, an international energy company like Centrica – our parent company – has many investment opportunities to consider. So in a world of finite dollars, and with a market that is abundant with opportunities due to challenging economic circumstances, I need to be confident and able to demonstrate to our Board that the appropriate investment conditions wherever we invest, including Ontario.

Put bluntly, this battle for capital calls out the need for a more competitive market here.

As North America comes out of recession, Ontario must be well positioned in investment and job growth, but not burdening the Province and its taxpayers with more debt. Ontario needs to attract the sort of investment that Direct Energy is prepared to make if that growth is going to be sustainable.

In some ways, Ontario is in a unique and advantageous position – there's an ample supply of generation at the moment, gas prices are low, smart meter infrastructure is being deployed, and a culture of conservation is being enforced, like it or not, by economic conditions.

Transitioning to a market that sends the correct price signals to generators and consumers alike and staying committed to the efficiencies that competitive markets bring, will ensure that Ontario is ready to take advantage of economic recovery once it returns.

And while we understand that change of this magnitude will take time, we remain committed to delivering value to our retail customers in Ontario.

Ontario is one of Direct Energy's most important markets. We serve more than 1 million customers here through our commodity and services businesses....we employ nearly 2000 thousand people...and we support many important local organizations – some of whom are here today – like Raising the Roof and the Ontario Food Banks.

We have quickly grown into one of the biggest energy companies in the country, but we are also committed to being one of Canada's largest energy-savers.

Through an expanding list of services, we help homes, businesses and industries use less energy. We're saving them money, easing the ever-increasing demand on supply and contributing to a cleaner, greener Ontario. For example, we have just launched a new green electricity plan for all new or renewing residential and small commercial customers in the province.

Customers who select one of our new plans will have their electricity greened via low-impact, hydroelectric generation sourced in Ontario. And they can have it at prices that are lower than any similar plan in the province.

We're proud to give our customers another option to help them to do their part for the environment. Of course, there's more that we do everyday to help encourage people to reduce their energy consumption.

This year alone, we will conduct over 3,000 energy audits and install 4,000 high-efficiency furnaces right here in the province. In addition, we'll install over 3,500 high efficiency air conditioners and over 75,000 ENERGY STAR-rated water heaters.

Our services also extend into helping companies to reduce energy consumption by managing their systems and usage more intelligently.

Let me give you a couple of examples:

With Woodbine Entertainment Group, we undertook a three-year process that included retrofitting a boiler plant, installing power-saving lighting controls and updating building automation systems.

This allowed Woodbine to be part of the Ontario Power Authority's Demand Response program. To date, we've helped Woodbine save about 14 per cent, which is a yearly savings of approximately half a million dollars.

In the case of department store chain Hudson's Bay Company, Direct Energy monitors the retailer's lighting, heating and cooling and has helped it to save about 10 percent – that's \$6 million - from its \$60-million annual energy budget.

We are also involved in projects that shed electricity consumption over the longer term. We're off the drawing board and out testing various systems for use in people's homes to help manage energy usage.

Picture, if you can, turning on your laptop and monitoring your energy usage....you might not even be at home, but you can remotely control thermostats, home lighting and energy-intensive appliances.

That's exactly what we did through a pilot in Milton.

Together with Bell Canada and Milton Hydro, we learned a lot about what information consumers need to help change their behaviour.

Some of the keener participants were able to reduce their peak consumption by 44%; a great result. That said, the majority of participants just didn't get engaged. And why would they with regulated pricing that meant a difference of mere cents on their monthly bill? Imagine how effective a program like this would be when combined with effective price signals.

Using this type of smart energy management system, we could even set up a monthly energy budget with up-to-the-minute information, so consumers don't get a nasty surprise when they open up their bill at the end of each month.

In Texas and the UK, Direct Energy and British Gas have been helping to test user-interfaces and roll-out smart meters and advanced technology to residential consumers.

We understand the value of these innovative new products...and we believe that private sector companies like ours, need to be at the table with other players to ensure that consumers are able to realize the full benefits from this sort of investment. A big piece of that is to ensure that consumers have control over their energy data and who can access it.

Only by having access to the data generated by our customers can we encourage conservation and investment.

And that's where we intend to continue bringing value to the Ontario market and to the many competitive markets where we operate across North America....markets that represent a \$500 billion opportunity in terms of energy and energy related services.

By investing in generation, new energy-saving technologies, and products and services that reduce consumers' environmental impact, we can bring greater value to residential and business consumers in the markets where we operate.

We believe that a competitive retail offering – the Direct Approach, if you will - with the right market structure, and effective price signals, can help ensure that Ontario, along with other competitive markets around the world, continue to be at the forefront of helping to solve our energy needs for decades to come.

I appreciate your attention and I welcome your thoughts. Thank you very much.