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**Official Report
of Debates
(Hansard)**

Wednesday 19 June 2002

**Journal
des débats
(Hansard)**

Mercredi 19 juin 2002

**Standing committee on
general government**

Reliable Energy and Consumer
Protection Act, 2002

**Comité permanent des
affaires gouvernementales**

Loi de 2002 sur la fiabilité
de l'énergie et la protection
des consommateurs

Chair: Steve Gilchrist
Clerk: Anne Stokes

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LEGISLATIVE ASSEMBLY OF ONTARIO

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

**STANDING COMMITTEE ON
GENERAL GOVERNMENT**

**COMITÉ PERMANENT DES
AFFAIRES GOUVERNEMENTALES**

Wednesday 19 June 2002

Mercredi 19 juin 2002

The committee met at 1600 in room 151.

**RELIABLE ENERGY AND CONSUMER
PROTECTION ACT, 2002**

**LOI DE 2002 SUR LA FIABILITÉ
DE L'ÉNERGIE ET LA PROTECTION
DES CONSOMMATEURS**

Consideration of Bill 58, An Act to amend certain statutes in relation to the energy sector / Projet de loi 58, Loi modifiant certaines lois en ce qui concerne le secteur de l'énergie.

The Vice-Chair (Mr Norm Miller): I'd like to call the standing committee on general government to order. We're having public hearings into Bill 58, An Act to amend certain statutes in relation to the energy sector. I apologize for us being late, but we have to wait until orders of the day start in the Legislative Assembly, and they just started.

**COMMUNICATIONS, ENERGY AND
PAPERWORKERS UNION OF CANADA**

The Vice-Chair: Our first group is the Communications, Energy and Paperworkers Union of Canada. If you could please state your name. You have 10 minutes. You can use the entire 10 minutes or you may use part of it and then allow time for questions, whichever suits you. Welcome to the committee.

Mr Cecil Makowski: It's certainly a pleasure to be able to make a presentation here today on behalf of the Communications, Energy and Paperworkers Union. My name is Cecil Makowski and I'm the vice-president of the Ontario region. As I say, this is an important issue. It has captured the attention of Ontarians from Cornwall to Kenora.

On behalf of CEP's 50,000 members, I am here today to call on you to send this legislation back to Mr Stockwell to rethink. Ontario has endured months of mishaps and chaos over electricity policy and Hydro One. This legislation does not get it right. It worsens the chaos; it is rife with inconsistency and contradiction.

This legislation, of course, is the government's response to Justice Gans's ruling. However, in the period since Justice Gans's ruling, the government has reconsidered its intentions regarding Hydro One on several

occasions. The most recent declaration by the Premier that majority ownership of Hydro One will continue to be public has once again changed fundamentally the context of this legislation.

The essence of Justice Gans's ruling was that the government's proposed IPO for Hydro One was inconsistent with its mandate under the Electricity Act. I suggest to you that Bill 58 is inconsistent with the commitment of the Premier last week to maintain majority public ownership. This legislation gives authority to alienate all of the shares of Hydro One. Regardless of our differing visions on the future of Hydro One, surely we can find consensus on the need for a democratic process, one that's based on transparency, honesty and integrity. Bill 58 fails this test and must be rejected.

Every test of Ontario public opinion has shown a majority to be opposed to privatization of Hydro One. I want to emphasize to you that partial privatization is equally offensive and also contradictory and inconsistent with good government.

The government's current political balloon on Hydro One has floated three ideas for partial privatization: a strategic partnership, an income trust and an IPO of up to 49%. Clearly, any and all of these options would alter Hydro One in a fundamental manner: the introduction of private investment would contradict the public interest mandate that must continue to be at the core of Hydro One's business strategies and operations. This would be tantamount to maintaining ownership while privatizing the purpose and mandate of Hydro One. What strategic partner, trust unit holder, or investor/shareholder would be prepared to have Hydro One and this province's energy system used as a socio-economic lever to save jobs or to help struggling industries?

As we told Mr Stockwell during his so-called consultations, privatizing Hydro One is destabilizing to basic industry. It will be a job killer. It will eliminate one of the most important tools that government has to save jobs. Let me highlight this point—a crucial issue which has not been discussed with the people of Ontario.

If you were to look through the records at Ontario Hydro, you would find many occasions on which particular arrangements were made with struggling Ontario companies to assist in avoiding bankruptcy or to assist them in restructuring to take them out of bankruptcy. This was done in the public interest. Thousands of jobs and the communities that depend on them would not have been sustained had there been no latitude to make these

arrangements. It goes without saying that private investors who own Hydro One, or its generating facilities, will have no interest in saving jobs in Sault Ste Marie, Thunder Bay or Kapuskasing. I ask you to tell us, and the people of Ontario, why our government would give away one of the key economic levers it has to save jobs and to help communities.

We can and must ask very similar questions when it comes to environmental policy. Electricity policy is entirely bound up with environmental goals, particularly with the need to reduce greenhouse gases. For example, Ontario's coal-fired electrical generation capacity presently operates at 30% to 50%. As a province, we choose not to burn more coal because of the consequences for air quality and greenhouse gases. However, Hydro One's previous board of directors was actively pursuing a strategy of increasing interconnection capacity, requiring increased generation that would inevitably demand increased capacity from coal-fired generators. The promotion of coal-fired electricity generation for export to US markets may well be profitable and in the interests of investors. However, it is not in the public interest and should not be promoted by Hydro One. Ontarians will not and should not accept a policy of dirty electricity for power-hungry Americans.

In the months since Premier Harris shocked Ontarians with his precipitate announcement that Hydro One would be privatized without a public process or mandate, we have had the opportunity to explore deeply the underlying assumptions that were driving this proposal. Allow me to briefly address the two most important of these assumptions.

While Bill 58 directs that the income from private investment will be directed to the debt, it will not generate capital for upgrading the Hydro One infrastructure. Private investment will, in fact, make the cost of new capital more expensive for Hydro One. No private investor can achieve the low interest rates available to the province of Ontario. Private investment will put at risk Hydro One's tax-free status, thereby imposing a significant new layer of cost on electricity in Ontario.

It is important that the government be clear with the people of Ontario about the income that would be generated from private investment in Hydro One. Will all the money raised be used for debt reduction, or only the profit over and above the book value of the shares held by the government? What's the real purpose for raising private capital: to reduce debt, to generate a large windfall for government revenues like a political slush fund, or will it be used to finance the budget?

We must remind ourselves that this government found it necessary to remove the board of directors in order to prevent the largesse that Ms Clitheroe and her privatizing board heaped on themselves. Evidently, it's not private sector discipline but public sector ethics and standards that Hydro One is short of. If private sector discipline is about making profit-and-loss business decisions, why then is it necessary to include in Bill 58 a directive that non-grid generating facilities and transmission systems

will continue to be operated? Could it be that even Mr Stockwell has limits on how much private sector discipline he wants?

We're particularly concerned over the notion that an income trust would be established to divert revenue from Hydro One to investors. Last year, Hydro One earned \$641 million in profit after meeting all debt payments. We find it very difficult to conceive of any private investment that would be worth sacrificing this revenue.

It is speculated that the most likely partner in an income trust would be a public sector pension plan. We must warn this government in the strongest terms that the politicization of these pension plans is extremely dangerous for the plans, the members and for the very idea of a non-partisan civil service. Do not use public sector pensions as political pawns in an ideological game.

In this context, what is the good purpose of Bill 58 that we're here to talk about? We suggest to you that the government of Ontario has implicitly recognized public opinion through the Premier's declaration that majority public ownership will be maintained. But this legislation was drafted by Minister Stockwell to facilitate the full privatization of Hydro One.

There are many unanswered questions about the government's intentions. Will this bill be used to facilitate the sale of remaining generating facilities? Is Bill 58 a Trojan Horse that would set up a partial sale of Hydro One, with the sale of the rest of the assets at a later date? We're reminded of Air Canada. It started out exactly the same way.

There's a new board of directors at Hydro One, appointed after the drafting of this legislation. The new board of directors has the unenviable task of restoring some measure of public trust in Hydro One. They must review all plans for Hydro One and consult with Ontarians over a legitimate and credible business plan. This cannot be done when government proceeds with political legislation like Bill 58.

I want to suggest to you that there is a better option for Ontario than Bill 58. We appeal to you to have this legislation withdrawn, hoisted or simply left behind. Instead, a genuine stakeholder process should be commenced, possibly facilitated by the interim board of Hydro One. That stakeholder process could attempt to achieve a consensus on the future of Hydro One based on public ownership and the public interest. CEP would be a constructive participant in such a process, and I believe that many others who have been involved in this issue would also positively engage.

That is my presentation. I want to also advise you that we think that the time limits set out for these presentations are extremely restrictive. We could have gone on at length and articulated a large number of points that we failed to have the time to speak to. We would hope that in the future a greater length of time can be allocated for each presentation. Again, that's my presentation.

The Vice-Chair: Thank you. That allows time for a question from the official opposition.

Mr Sean G. Conway (Renfrew-Nipissing-Pembroke): Very briefly, there are two big businesses at Hydro One,

basically. There's the highway and then there's the distribution business. Have you any views on how we should proceed with a more customer-sensitive rationalization of the distribution part of Hydro One, given the fact that in the last couple of years the management of Hydro One has gone out and done exactly what it was told not to do by a number of people, namely, buy up a lot of publicly owned local utilities—publicly owned, I might add, but locally focused—and in so doing, appears to have really frustrated a more orderly distribution network?

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Mr Makowski: It's difficult to put the genie back in the bottle. I might simply say this about your comment: that Hydro One and Hydro before had gone around buying up a number of locally owned distribution networks. People in many communities are taken aback that the sale of those facilities and those networks to Hydro was made on the basis that they were going to be maintained in public ownership. To now see that their former locally controlled and owned distribution systems are going to be potentially privatized and may be controlled by foreign ownership is difficult for them to swallow.

Mr Conway: Let's just assume public ownership. Thinking about customer service, there's a real problem for a growing number of people because it's now a completely fragmented service delivery operation in many parts of the province. A lot of customers who accept your advice around public ownership are mad as hell about a mess that's getting worse, not better. Have you any advice, with the customer in mind and accepting public ownership, how we can have the kind of restructuring of the distribution part of the business that makes sense for residential and industrial customers who lately are beginning to really wonder if anybody cares about the customer on the service side?

Mr Makowski: There are models that rely on advisory boards in communities to establish the priorities for the distribution networks. That's something that could be looked at. Obviously local control over that utility is extremely important, and having it evaporate basically as a result of a misguided policy is concerning a lot of folks in a lot of communities.

The Vice-Chair: Thank you very much, Mr Makowski, for coming before the committee today. We appreciate your coming in.

ONTARIO ENERGY ASSOCIATION

The Vice-Chair: Is there a representative of the Ontario Energy Association here? If you could please state your names. You have 10 minutes to use for your talk or you can leave time for questions, whichever suits you.

Mr Bernard Jones: Mr Chairman and committee members, I'm Bernard Jones, president and CEO of the Ontario Energy Association, or OEA. With me is Peter Budd, chair of Power Budd LLP and also chair of the association.

On behalf of our membership we are pleased to have this opportunity to make this submission on Bill 58. The OEA is a broadly based energy association, uniquely representing both natural gas and electricity interests. We have more than 100 corporate members serving Ontario in utility transmission and distribution, energy production and supply, energy marketing, manufacturing, contracting and supply, and consulting. I'd now ask Mr Budd to relate to you our views on Bill 58, after which we will be pleased to answer questions.

Mr Peter Budd: It's a pleasure to appear before you. We hope our association will be helpful in our views.

First of all, we believe Bill 58 is intended to open the way for prudent private sector solutions for the disposition of electricity system assets and enhanced consumer protection. To be abundantly clear about it, we believe that in a mature electricity utility infrastructure and system, governments don't need to own it, but they do need to regulate certain parts of it very carefully.

That said, you will also note from our past that the OEA has supported the government's goal of bringing that increased discipline to Hydro One through private sector structures. Indeed, we supported the IPO option over other options, for reasons which the committee may know.

We recognize that Bill 58 must allow for other potential options. We're certainly prepared to accept that, but hopefully they'll move in the appropriate direction. We stand ready to provide to the government and others assistance in respect of guidance as to whatever it decides will be the best option for a competitive electricity market and ultimately the paydown of stranded debt.

Other measures in this bill relating to the use of transmission corridors and water and dam management are indeed additional positive steps.

The OEA supports those aspects of the bill as well which are aimed at unfair marketing practices and false advertising. We should be clear. Nobody sitting here or anywhere enjoys those kinds of problems. They should be overcome, and indeed those aspects of the bill will help to build and restore public confidence in a competitive market and hopefully help us move toward better competitive choices for customers in Ontario.

Notwithstanding all of those positives, I have to advise you that if the legislation proceeds with undue haste and without due consultation—this is a concern the OEA has—with stakeholders, it's my belief as a former member of the Market Design Committee and now chair of the Ontario Energy Association that the retail energy market in Ontario could indeed, as our submission states, shrivel up and die. That's a serious concern for not only myself, who has spent six years working on getting a market up and running, but the association as a whole. We're fresh off a board meeting yesterday to bring you these views. We believe Ontario would be ill-served by such a development. The end result, if marketers don't want to participate in Ontario and we don't have competition, could be higher energy prices and lower private investment in the province—not something particularly welcome.

Certainty with respect to government policy direction and consistency of the regulatory framework will continue to be important factors for any long-term investment to occur in the electricity sector, which we might note opened well on May 1 and has been largely under the radar screen, to the credit of everybody in the room.

Bill 58 will call into serious question the government's commitment to a restructured electricity industry and the desirability of new private sector investment in a competitive marketplace unless we get it right. I think there are opportunities for us to get it right, but we've got to be very careful about how we're going about doing this, because all eyes outside of Ontario are watching us very closely, with a freshly opened market which apparently has gone well but with a couple of disruptions over the last few weeks, which in my view are not going very well at all.

I'd like to leave you, if I could, with two specific concerns if you take any note of these matters that we'd like you to really consider closely, and they are in this bill the extension of the cooling-off period and, secondly, the customer reaffirmation requirements in the bill. In our opinion, if those two are enacted, they will provide or add unnecessary costs and uncertainty for both the consumers, who will have made up their minds on what it is they chose to do within a 10-day cooling-off period, as I understand it currently, and very much uncertainty for energy retailers, all of which will result in the detriment of competition.

We've watched this in the gas business for a number of years. Now we've got a freshly opened electricity sector and we're seeing this bill get far too intrusive in these areas. They will complicate and introduce undue energy supply management risk—real risk, in my professional opinion—for retailers, no question; substantial additional red tape and cost; and customer confusion. That increased cost should just be unacceptable because ultimately it leads our Ontario consumers to have to pay higher retail prices when energy companies have to go out and hedge for this extended cooling-off period during periods of market movement and price volatility. That's what markets are about. We have to be extremely careful on those two points.

Recently—if we ask you to back off those things—you will note that the government gave the Ontario Energy Board broad new powers to impose harsh financial penalties against market participants engaging in inappropriate behaviour. Those powers are now in place and the board is using those powers with effect. We're confident that continued diligence and further swift and decisive board action where that is warranted will promote the additional significant and positive change that is needed, but not this kind of intrusive development in at least these two areas that we've pointed out.

Moreover, I think it's fair to say, from an observation of the players who are out there now active in the retail market, that their quality is much higher than it was previously. There are significant big business players in

Ontario now working in the market or community. They are also appropriate for developing new standards for the accreditation of sales agents.

So there are other ways available to handle these things, and we think that there are different ways that could be reflected. The bottom line on this one is that progressive change is already well underway.

We believe the industry, the government and the OEB must continue to work together, as they have for a number of years, to address outstanding concerns around consumer protection and business practices. We think we can meet these shared goals without unwarranted legislation and regulation, but I caution you all, everybody on all sides of the House, that it's important that rules not be so onerous as to stifle competition and cause this retail market to fail, which is a prime concern I have. We stand ready as an association to assist the government and the Legislature in fixing these problems and meeting the goals.

But if the government decides to proceed with third reading of Bill 58, then we strongly recommend that the cooling-off period extension that I referred to and the reaffirmation sections—going back and asking for a second written wet signature, which just isn't done in any other business that I'm aware of—not be proclaimed until the strong measures already undertaken, that I've discussed about the OEB and in codes and so forth, are given sufficient time to prove themselves, to take care of any inappropriate market activities, and there have been some. The OEA is confident that with firm regulation we can fix these problems.

A couple of other observations, if I could just skip down and leave time for a question or two, if you have any.

First, later this week your committee is going to be hearing from others in the marketer community. We urge you to pay attention to what they have to say and ask them some tough questions about what their proposals are. They've given this a great deal of consideration and we're confident they can be helpful to you.

The second critical point I'd like to conclude with is, leave the details of these kinds of things, the minutiae—important minutiae—to a stakeholdering process. The government was confident, and I think it reaped the rewards, by turning over the details of market design to a Market Design Committee that it appointed, and they gave it a year to deal with that. Nobody's suggesting this takes a year, but that MDC produced four quarterly reports. That stakeholdering process was highly effective and it worked. We think you can have confidence when you ask Ontario stakeholders in the energy community to come together and make it work. You certainly have our support and you'll find that with others. So take that time and don't rush details, because the smallest details in the energy marketplace can kill it.

Thirdly, a point that I think sometimes gets overlooked: people look at Ontario from the outside and from the inside and wonder what kind of business environment we're creating. A lot of companies have come from afar

to invest in Ontario. They've spent tens of millions of dollars coming here because they had the confidence we were going to open a market successfully, stick to our guns and make it happen.

We've done well in the province, and we're proud of it. Around the world we're the only market that has successfully opened a wholesale and retail market simultaneously. It has never been done before. Let's be careful.

Those companies have invested all of that money with the confidence that this market can work. If we bring on rushed legislation without appropriate stakeholding, in my respectful submission to each and every one of you, we're putting this whole market and the retail sector—and it could penetrate back to the wholesale sector—at some great risk.

Let's not let it fail. Let's support it. Let's keep on with the stakeholding the way it has been done in the past and hope we can make this market go smoothly for the next number of years. Thank you.

The Vice-Chair: Thank you. We have time for one quick question from the third party.

Mr Peter Kormos (Niagara Centre): Mr Bryant has a question.

The Vice-Chair: Mr Bryant, OK. One quick question and then we're going to have to recess to go vote.

Mr Michael Bryant (St Paul's): Thank you for coming. A quick question: you made reference to disruptions recently that I guess have had an adverse effect. Could you expand on that a bit? What disruptions?

Mr Budd: I think the investment community and the energy marketplace and industry generally were very concerned about the disruptions caused by what had gone on with Hydro One. I'm hopeful there's now more certainty, but that period of time that we just came through was a difficult period as people wondered what the future would be of that electric utility.

Mr Bryant: So what's happened with respect to what the government's done on transmission you're saying is having an effect on the retail and wholesale market—a negative impact?

Mr Budd: I think the government needs to be very careful about how it puts these proposals forward. My association is suggesting that they adopt a very consistent approach to it and stay the course they've been on.

The Vice-Chair: Thank you for coming before the committee today. We have a vote that we have to do, so we'll take a recess for what will likely end up being 15 minutes, I would suggest, and reconvene after the vote.

The committee recessed from 1624 to 1636.

ROY BRADY

The Vice-Chair: I call this committee back to order. Is Roy Brady here?

Mr Kormos: On a point of order, Chair: Since the government has set the bells ringing again for another vote, they don't have much interest in this committee proceeding, do they?

The Vice-Chair: That's not a point of order.

Is Roy Brady here, please? Welcome to the committee, Mr Brady. You have 10 minutes. You can use the whole 10 minutes or if you want to allow any time for questions, feel free as well.

Mr Roy Brady: Thank you, Mr Miller and members of the committee, for inviting me and giving me the opportunity to speak today. I left four copies with Anne Stokes. Gary, I left one at the portable mailbox at the back of Queen's Park for yourself.

My name is Roy Brady. I'm from Peterborough. Like everyone, I'm a citizen and a taxpayer. I basically took electric power for granted for most of my life. It was four years ago, when the Electricity Act was passed, that I became very interested in this topic because of local meetings as to what to do with the local Peterborough utility. From there, I began to study, as some members of Peterborough have done, and became very alarmed in December—just before Christmas—when Mike Harris made his two announcements regarding transmission and generation. There's been quite a bit of interest in Peterborough and in myself, and that is the reason why I am here.

I don't agree that the enabling legislation in Bill 58 is a real mandate for the government to privatize any of Hydro One. It is just an attempt to circumvent an Ontario court ruling. However, I shall argue that if the government does act as if it has that mandate, their policy is folly and an act of unaccountability to the entire population of Ontario.

Public control should be 100% ownership by the population of Ontario. Schemes of part-privatization do not tell the population what the government intends and would not encourage investors to invest capital that is deemed to be so necessary. In short, it won't work.

A few points on that: Hydro One, the transmission sector, is working. The past two years there has been an annual cash flow of \$640 million to \$750 million, non-profit and available for reinvestment. The actual Hydro One portion of the Ontario Hydro debt is approximately \$4.84 billion, considered low for an essential public utility service. It's been the nuclear-driven generation sector that holds most of the debt. Also, the \$5 billion or \$5.5 billion price tag grossly undervalues the total assets.

Secondly, investors, even if ownership is less than 50%, need a secure return. To get that return, there are two choices: seek higher returns or reduce costs or both. For a higher return, consumer rates must increase, particularly if investment has been forecast—not necessarily promised, but forecast. To reduce costs, investment in infrastructure will be stalled. Remember that government can borrow at a lower rate of interest than the private sector. Also, the private partner or partners involved are unlikely to invest heavily when political considerations affecting the government of the day might intervene. That's a reality when over 50% is publicly owned.

Thirdly, one way for Hydro One to increase profits, unfortunately, could arise from what are called transmission bottlenecks. These are similar to the supply gaming schemes that we witnessed in California. We

need full public control to guard against that kind of corporate treachery.

Fourthly, an income trust, as mentioned earlier today, has been suggested whereby the province retains ownership of the assets but sells investors an interest in the profits earned. Unfortunately, private investment would not be encouraged under this scheme. Any risks involved would be entirely in public hands, with, at the same time, a reduced share of the profits to be earned.

A solution for the government of Ontario: you manage the service essential to industry and all ratepayers. You've always bragged about what great economic managers you are, how you've striven to keep public services, such as education and health care, accountable. Hydro One investment has been ongoing, using our money. That will continue under your management. Then clean up any mess at the top. Do your job. The private sector can hardly be looking forward to such an added public responsibility, and in fact wouldn't do it. Make a business plan and show it to the population of Ontario at least, so that there's some trust in your government from the people.

If the government did go ahead with part or whole privatization, then what? Any private investment would go toward building cables and lines to the United States where the market and price are higher. It would not be smart economics to invest in Ontario where the return is lower. Hydro One has already applied to lay cable under Lake Erie to the United States. That goal has been clearly outlined in the last Hydro One prospectus. The public sector, if it chose, could undertake similar investment but escape the binding clauses in the North American free trade agreement—which I will call NAFTA—regarding proportionality, price equivalence and binding export guarantees. At the same time, other costs must be reduced; therefore, there will be less investment capacity for Ontario. It is foolhardy to think that private investment would patriotically be provided in Ontario when higher returns are available in the United States.

As I have said, NAFTA provisions do not apply if Hydro One remains public. I have some further concerns, though, and you may not have considered these. If a significant part of Hydro One is sold to an American corporation or corporations, could NAFTA somehow still click in? Is 49% substantially the same as 50% because of the corporate investment already made? Unfortunately, an unelected trade tribunal might be asked to decide. Would government still be permitted to legislate and regulate grid capacity, stability, performance and domestic content? Back home, the question is, what will happen after the next election? Will there be another Mike Harris-style announcement of 51% or 100%? Real concerns. I think you gather that I'm quite worried.

The Ontario Energy Board is supposed to protect us. I won't hold my breath. The enforcement powers of this board are uncertain, particularly as we have observed how toothless and tardy it was in dealing with fraudulent energy retailers. When Hydro One, when it is heavily privatized, makes constant applications for rate increases because of their investment claims—probably toward the

US market—and the need for larger shareholder profit, will the board justifiably say no? When NAFTA has clicked in, or corporations threaten to use it anyway—and I hope I'm wrong in this—I am alleging that the existence of such a board could be challenged at a chapter XI trade tribunal as an unnecessary barrier to export trade or as a subsidy to help domestic ratepayers.

Often forgotten are the 88 municipal utility sales to Hydro One, allowed and encouraged by the government. Citizens thought they were selling to a publicly owned corporation. Instead, they will realize they have been deceived into being delivered to at least a partly privatized corporation.

The disturbing question is, who profits from the sale of Hydro One? It is not the people of Ontario, who now own a great asset whose debt is \$4.84 billion. That's low for a large public utility, and there seems to be no alarm from the financial community about that particular debt. Unfortunately, the beneficiaries would be financial corporations and advisers, corporate lawyers, large corporations which can afford such large purchases, Tory supporters who will get positions, lobbyists and officials working at the Premier's office and perhaps at the Ministry of Energy, and perhaps defeated Tory incumbents at the next election. Despite not being recommended for privatization until last December, only a Mike Harris pronouncement put the Hydro One sale on the table. Who's he? He is hardly accountable to the people of Ontario.

In conclusion, a plea to the government of Ontario: what are you doing to this province? What are you doing to the population of Ontario? A substantial majority opposes the sale of Hydro One. Only an unaccountable provincial government would proceed regardless.

Your own supporters are in disarray at this moment. They have clearly awakened and studied this issue and, though desperately trying to remain Tory sympathizers, disagree with you and want Hydro One in public hands. Are you going to split your own party? Are you intending to place ultimate control over party policy in the hands of the Premier's office, which is lobbied successfully by lawyers, accountants, underwriters and corporations, but ignoring your own electoral supporters?

Drop Bill 58. Keep 100% public control of Hydro One. Please let the people of Ontario enjoy the long-awaited summer holidays without constantly having to look over their shoulders wondering just how they might get shafted. Thank you for your attention. I look forward to feedback and questions.

The Vice-Chair: Thank you very much, Mr Brady. You've used up your time. We appreciate your coming in today to speak to us. Thank you.

Ms Churley: I had a good question for you.

Mr Brady: Did you? Thank you.

TORONTO BOARD OF TRADE

The Vice-Chair: Is there a representative here from the Toronto Board of Trade? Welcome. If you could state your names. You have 10 minutes to use as you please.

You can use it all for your talk or you can allow time for questions.

Ms Elyse Allan: I appreciate there's a voting call, so we'll keep moving.

Good afternoon. My name is Elyse Allan. I'm the president and chief executive officer of the Toronto Board of Trade. With me today is a great volunteer, Jan Carr, who is the chair of our board's electricity task force, and also with me—this is not Louise Verity—is Norm Tulsiani, who is a policy adviser with the board and works with that volunteer committee.

Just for the record as well, the Toronto Board of Trade represents over 9,000 members. The majority of those members, over 60% to 70%, are small business members and mid-sized business members who are in fact consumers of energy in Ontario.

Thank you for the opportunity to make this presentation on behalf of our membership. We are pleased to be here today, representing our business community and our membership, to support Bill 58 and also to offer some recommendations on this bill. The Toronto Board of Trade, as I said, represents all sizes of businesses, with over 70% being small business and mid-size.

As you know, the Toronto Board of Trade has taken a very active interest in your government's initiative to reform and reorganize Ontario's electricity sector since the release of the Macdonald report in 1996. The board has been a strong and consistent supporter of the opening of Ontario's electricity market to competition.

During the Ministry of Environment and Energy consultations on the privatization of Hydro One last month, the board reaffirmed its support for privatization but urged the government to take steps to ensure the continued availability of hydro corridor lands for public transit and other public uses. We understand that the government introduced Bill 58 partly in response to concerns regarding the continued availability of the hydro corridor lands for public use.

The proposed legislation maintains public access to the hydro corridor lands while confirming that transmission is the primary use of such lands. We support provisions in Bill 58 that will transfer title to the hydro corridor lands to the province and will give Hydro One an easement for its transmission lines. We would like to thank the government for taking decisive action on this issue. As you know, Ontario's urban areas are facing mounting traffic congestion problems. According to a report released by the board last summer, the cost of congestion to business could reach \$3 billion annually. That would be 1.3% of regional GDP by 2021. Clearly, this is a significant problem and we need to maintain flexibility to ensure we have the ability to manage.

We also support provisions in Bill 58 which enhance environmental protection by introducing a system to track the primary energy sources used in generating electricity.

A significant feature of Bill 58 is the Energy Consumers' Bill of Rights set out in part V.1. The board supports consumer protection and would like to offer some suggestions for improving this part of the bill.

This section is one of the key sections of the bill and we must get it right. The consumer protection provisions must be balanced and offer energy consumers adequate protection while at the same time allowing electricity and gas retailers to market their services in a commercially reasonable manner. We believe certain provisions in the part do not achieve this balance.

For instance, subsection 88.9(1) of the bill provides for a 30-day cooling-off period after a consumer has signed a contract and requires the consumer to take positive steps to reaffirm that contract. This reaffirmation can only be given after 14 days. Under this rather onerous provision, a consumer would not even be allowed to reaffirm the contract after a week. Rather, the consumer must wait an additional week before reaffirming. We believe this requirement would be extremely cumbersome and intrusive for both consumers and retailers.

We also note that this provision is inconsistent with general consumer protection standards. Consumer protection standards generally provide that a contract becomes legally binding unless the consumer cancels it within a stipulated period of time, which is usually 10 days.

The choice facing consumers in purchasing an electricity or natural gas supply is quite similar in principle to the choices when arranging a mortgage. The consumer may opt for either a lower-cost but more volatile floating-rate mortgage or a higher-cost guaranteed-rate mortgage. Despite the fact that arranging a mortgage is a much more important and onerous decision for a consumer than arranging the supply of electricity or natural gas, mortgage consumers do not have a 30-day cooling-off period and there is no requirement to reaffirm the mortgage contract.

We appreciate that the government must respond to the reality that some consumers feel apprehensive about arranging for their electricity supply in the recently opened market. For this reason, we believe the bill could retain a cooling-off period but we recommend that the bill be amended to remove the requirement on the part of the consumer to take positive reaffirmative steps. We also believe that in the longer term, once consumers are more familiar with the workings of a competitive electricity market, the cooling-off period should be reduced from 30 days to 10 days, which is consistent with general consumer protection standards.

We understand that Bill 58 has been introduced to provide consumer protection in the context of a newly opened competitive electricity market. The existing provisions in the legislation are based on limited experience and may prove to be unnecessarily restrictive and complex in the longer term. For this reason, we believe the legislation must be flexible enough to respond to changing circumstances as the marketplace matures and the initial wave of transitional issues has been resolved. One way of ensuring flexibility would be to set out certain details in regulations rather than in the legislation.

Thank you. If there's time, we would be pleased to address your questions.

The Vice-Chair: It's the government's turn to ask questions.

Mr R. Gary Stewart (Peterborough): Thank you for your presentation. It was an interesting one. It's interesting to note that you represent 9,000 small businesses.

Being a small business person—or I was a small business person—any additional costs and any threat of additional costs are a major concern. Yesterday we had people here saying that the cost of electricity was going up 400% and 500%, with not a great deal of backup to it. In fact, last night I thought I'd better go home and get my coal-oil lamps out just to be protected. I don't mean that facetiously, but that type of talk and conduct, with no backup, is foolishness. It's interesting that your 9,000 members would support this type of action if they ever had the slightest idea that that would be the type of increase. Has there been much comment on that within your organization?

Ms Allan: I'll comment, and Jan may want to comment as well. I think since the beginning, generally, we've been very supportive of an open market and what an open market in electricity will bring, and that's reflective of our membership. Our general sense has been that the situation in Ontario is very different than the situation in other jurisdictions. As a result, we expect there would be a very successful future with an open market in electricity.

Mr Jan Carr: I can't really add anything more to that, other than to underline the fact that the board's position with regard to electricity policy in the province is not something that has happened in the last week or two. It has been, as Elyse has said, actively involved with a standing volunteer committee for a number of years. One of the things we have done is made every effort to communicate with our members and make sure there was an understanding of it. I think some of the rather startling stories you mentioned about massive price increases are based, in many cases, on incorrect information or a misunderstanding of correct information, one or the other.

Mr Stewart: It's interesting to note that when this all started there was the possibility of a 100% sale of Hydro One. Now there is some indication that it may be somewhat less but still holding control. Of course, we're hearing that won't work. On the other hand, I would suggest that probably a good number of your membership has been involved with circumstances where they have sold a portion of their companies and retained control to get the necessary infusion of capital they may need, which could very easily be the situation here because of the transmission lines that have to be upgraded etc. Do you agree, though, that if some type of sale was initiated with control still in the hands of Ontarians, it might work?

Ms Allan: We've been generally very supportive of privatization. Privatization is a full spectrum and that can mean many different arrangements around that. I think the advantages of ensuring we have access to the technical skill, the capital and the benefits that a private market brings is something we have continued to support.

The Vice-Chair: Mr Bryant has indicated he'd like to ask a question.

Mr Bryant: Yes. Just a quick question. One concern is that the change of position from IPO to no IPO to perhaps income trust and so on at the same time as the retail market and the wholesale market are underway has created some volatility. I'm just wondering if the board is at all concerned that it's all happening at once, not the retail and the wholesale but that at the same time as the transmission reforms are underway, which really weren't a part of the Macdonald report. Do you have any concerns about volatility and what your recommendations to the government might be in terms of trying to limit that volatility?

Ms Allan: I'll make a general comment and pass it on to Jan. Generally when you have a plan laid out, the smooth implementation of that plan from a business perspective is better because businesses like certainty. When there's a plan laid out, they like to see that plan put forward.

Our comment would be that there has been a lot of recent volatility, and the sooner we get that plan laid out and moving forward again, the better it will be for ensuring, as one of the previous people mentioned, that we have certainty back in the market so that the people who have invested take comfort and stay involved and engaged in that market.

Mr Carr: I wouldn't do anything more than just simply underline Elyse's comment. The major concern is a lack of certainty. This is an enormous industry in the province. It is an essential service and it deserves the finest of planning. A lot of effort went in by stakeholders, government, professional consultants, legal opinion and so on in designing the market, in designing the restructuring process, in putting the original legislation in place and the various rules and regulations that are wrapped around that.

As was mentioned in one of the previous presentations, the opening of the market went extremely smoothly, and that's a credit to all involved. That is the result of good planning. It is a pity that that might be compromised due to lack of planning. As Elyse says, the most sensitive element to that is investment. Investors do not like uncertainty.

The Vice-Chair: Thank you very much for coming before the committee today. Unfortunately we have to recess for the vote. We'll be back in 10 minutes or as soon after the vote as possible.

The committee recessed from 1701 to 1714.

PENINSULA WEST UTILITIES

The Vice-Chair: If we could reconvene. Is there a representative from Peninsula West Utilities Ltd? Welcome to the committee. If you could please state your names. You have 10 minutes to use as you please. You can speak the whole time, or you may allow time for questions, whichever suits you. Welcome.

Mr Brian Walker: Thank you, Mr Miller and members of the committee. My name is Brian Walker. I'm

currently serving my second term as chair of Peninsula West Utilities Ltd. I'm also serving my ninth term as a councillor for the town of Pelham. I was a former chair of the Pelham Hydroelectric Commission before amalgamation into Pen West.

With me today is John Alton, the president of Pen West Utilities Ltd, who started in the electrical utility industry in 1969. He's been an active industry committee participant during the whole restructuring process.

Our presentation today is going to focus on perhaps a little bit different solution to the revenue requirements of Hydro One. Also, we're going to look at consumer protection from a little bit different aspect as well.

Peninsula West Utilities Ltd was created in October of 2000 when the hydroelectric commissions of Lincoln, Pelham and West Lincoln were amalgamated under provisions of the Energy Competition Act, 1998—Bill 35. Prior to the passage of Bill 35, there were 10 municipal electric utilities, one private utility and the provincial utility, which was the self-professed retailer of last resort within the regional municipality of Niagara.

Now there are six municipal utilities left after amalgamations and divestitures. Hydro One purchased Thorold Hydro, and Canadian Niagara Power has leased Port Colborne Hydro. In the regional municipality of Niagara there are approximately 175,000 distribution customers served by eight different distribution companies. Hydro One's customer base would form about 9% of that total number.

With the introduction of the Reliable Energy and Consumer Protection Act, Bill 58, there is an opportunity for the government to promote the rationalization of the distribution companies in Niagara by transferring control and management of the Hydro One distribution assets to Pen West.

Pen West is proposing that the Ministry of Energy enter into a long-term lease-to-purchase agreement for these distribution assets. The agreement could provide the government with a revenue stream to help pay down the stranded debt, while at the same time provide for the necessary capital infrastructure investment to improve the reliability for the benefit of the customers.

The Hydro One assets we're talking about are contiguous to Pen West's service territory and are located in the township of Wainfleet, the town of Pelham and the city of Thorold. Currently, Hydro One and Pen West service vehicles drive through each other's service territories to service their customers. Customers in the rural part of the town of which I am a member of council are particularly frustrated by having two service providers with different rates, service policies and response times, while at the same time being under the municipal control of the town of Pelham.

With the reintroduction of transfer tax relief in Bill 58, for a period of 18 months the government could further enhance rationalization of distribution assets, as more distributors would amalgamate.

Pen West is actively involved in discussions with neighbouring utilities to amalgamate in order to effec-

tively meet all the new responsibilities and requirements of deregulation. We would move very quickly to merge if the transfer tax were lifted for a period of time, which would increase our productivity and reduce our costs for the benefit of our customers.

The amalgamated utility would have multiple municipal shareholders and would be accountable to the customers they serve. We could eliminate duplicate positions, multiple work locations and costly computer systems, all those things that are beneficial by rationalization of assets and services.

We appreciate the government's position that the status quo is not acceptable, but it is time to stop the illogical growth pattern of Hydro One and it is time to reinvest in the Hydro One infrastructure for the long-term benefit of the people of Ontario. Increasing the size of the hole in the doughnut on the distribution side in Niagara does not make sense; having larger, fewer and shoulder-to-shoulder utilities in Niagara does.

In our review of the proposed amendments to the Electricity Act in Bill 58, we believe that alteration of ownership structure can include a lease-to-own arrangement of the distribution assets and that the minister can dispose of and otherwise deal with the assets. We trust that this interpretation is correct.

We realize that this proposal would be a "made-in-Niagara" solution to rationalize the distribution sector while at the same time provide the government with the needed capital to reduce the stranded debt. We're also aware there are other utilities in Ontario that are in a similar situation to the Pen West situation.

On the provincial scale, for a made-in-Ontario solution, our president, Mr Alton, and several other interested municipally owned utilities met with staff members of the Ministry of Environment and Energy on June 12, 2002. A copy of their presentation will be attached for your perusal. In essence, their proposal was to separate the transmission and distribution systems into separate companies. Hydro One would retain the transmission assets, as it is a natural monopoly for the benefit of all the citizens of Ontario and needs to operate on a provincial, interprovincial and even international manner to remain robust and reliable.

The distribution assets would be placed into a shell company which would oversee the rationalization of the distribution systems into shoulder-to-shoulder utilities, just as Macdonald had recommended in the Framework for Competition report.

The group I refer to is informally known as DARE, or the Distribution Acquisition and Rationalization Effort, and it is prepared to work with the government to recommend the appropriate legislative amendments to keep the distribution assets under the control and management of the people of Ontario.

In closing, we would like to applaud the government on the introduction of the Energy Consumers' Bill of Rights, as the concerns of our customers, which we have shared and responded to, are addressed in an appropriate manner.

The Vice-Chair: Thank you. Ms Churley, would you like to begin the questioning?

Ms Churley: Sure. Thank you very much. I just wanted you to—I know it's such a short time to make a presentation—expand a little bit on how you see that your proposal is different from what we think the government is proposing at this point. I know it's a little hard because we're not sure where they're going, but—

Mr Walker: I think that in our case what we're trying to propose is that, especially in the Niagara region where Hydro One has a very limited customer base, it would be in the best interest of the customers to be served by the local distribution companies. They purchased Thorold Hydro at a premium price. Let's see, they have 8,000 customers there. They have about 4,000 customers in Pelham and 2,500 customers in Wainfleet. We're thinking we could better serve the needs of those customers in a more efficient manner and I think a more cost-effective manner. I'm on the board of the Niagara Central Airport Commission and I review the hydro bills each month, and there are substantial savings if they are Pen West customers.

1720

Mr John Alton: If I could, the other part is that they had suggested there would be three ways to dispose of the assets. There would be the strategic partnership, so we're seeing through Bill 58 that the disposal of assets could include a lease to purchase in which the local municipal shareholders would be the owners. So it would be a made-in-Ontario solution to take care of that, rather than getting into an income trust where someone may simply take all the revenue and leave the assets to deteriorate.

Mr Stewart: Your company, Pen West, is owned by the municipality?

Mr Walker: Yes. The shareholders, sir, are the town of Pelham, the township of West Lincoln and the town of Lincoln.

Mr Stewart: All right. So you bought up all of them under the—

Mr Walker: No, we merged.

Mr Stewart: You were merged.

Mr Walker: In the town of Pelham, the customer base was about 1,300 customers who were under the Pelham Hydro Commission, and the remaining approximately 3,900 customers are Hydro One customers. But in West Lincoln it had expanded to include all of its customers under the previous bill, as had Lincoln.

Mr Stewart: It was interesting when you talked about duplication, having the duplication of people and everything else. I agree with you 100%.

You're saying that the transmission then should still stay with Hydro One?

Mr Walker: Yes.

Mr Stewart: And you people then would take the distribution. That's fine for your area. Are you suggesting that could be a solution for other areas in Ontario? I guess my concern is, it may work down there, and then over here you've got something else and a

different way set up, and then over here another way. What kind of controls would there be on it to make sure the public is well served?

Mr Alton: In the June 12 presentation we made to the ministry staff, we gave an outline of how we saw it, that all the distribution assets in the province of Ontario would go into a shell company, and then multiple municipal shareholders would then divvy up all of the rest.

If you look around the province, there is a real Swiss cheese effect, or there was prior to Hydro One's purchasing the 88 municipal utilities. But in areas like Niagara, Hamilton-Wentworth, Ottawa, Sudbury, pretty well all over the province, there could be real rationalization and there would be shoulder-to-shoulder utilities where they would go from one utility to the next.

Right now in our service territory, Pelham is an island. There are 1,256 customers who are out in the middle of a sea of Hydro One distribution customers and Hydro One has to drive out from its area in order to serve those customers through our territory, through Lincoln or West Lincoln. It's the same: we have to drive through their area to get to that little island in Pelham. It's beautiful downtown Fonthill, if you've ever been out that way.

Mr Stewart: Yes, I have.

Has it been set up, though, as a for-profit company that is owned by the municipality?

Mr Alton: It has been set up as an OBCA company. It has applied for the full rate of return that it's permitted under the Ontario Energy Board. At the same time, it has a mandate that it will improve its infrastructure in order to provide better levels of service to all of its customers. There's no mention at all of dividends. We're not generating dividends to turn back to the municipalities.

Mr Stewart: Some of them are and are then suggesting that it's because of open market etc—that's why all of a sudden the prices have gone up. I know of a municipality that's doing that. That's why I wondered just how you had it set up.

Mr Alton: We're quite fortunate in Pen West. In the rural areas that we took over from Hydro One, the distribution assets needed a tremendous amount of work, so we are reinvesting a lot in the infrastructure in order to improve reliability. The investments are for the benefit of the customers.

The Vice-Chair: Thank you very much for coming before the committee today.

ROSS NORRIS

The Vice-Chair: Is Ross Norris here? Welcome. You have 10 minutes to use as you please. If you want to leave time for questioning, feel free.

Mr Ross Norris: I've given out the 15 copies. I'd like to just give a brief summary, and then make one helpful comment to Mr Stewart. This is a two-page brief, so all you have to do is read the top two pages. The rest of it is backup for the statements made in those two pages.

We're recommending that all MPPs should state their objection to the bill if they wish re-election; that Bill 58 should be scrapped now; and that not only should privatization of Hydro One be killed, but deprivatization of OPG should be undertaken as soon as possible. There are other candidates that merit deprivatization; for example, Highway 407.

The problem is what works in the public interest; that's really the focus. The concern I have, as you'll see in exhibit B, is that in fact privatization may lead to a made-in-Ontario depression for a number of reasons. That exhibit is quite detailed, so you can read it later. I'm not going to get into the details here. The scale of magnitude of privatization of Hydro One is about 10,000 times as bad, in dollar terms, as the terrorists bringing down the World Trade Centre in New York, based on the numbers. Again, that is in the appendices.

An alternative is suggested called Bank of Canada credits. Again, these Bank of Canada credits are explained in the appendices. They are legislated and available. They have an excellent history. There are a very large number of applications for Bank of Canada credits, far beyond simply the issue of Hydro, and they are tabulated here.

I should really talk briefly about the appendices. I've given you something off the Web which is from the Attorney General's office, under appendix A, about a deregulation experience reviewed by the state of Minnesota. For the assistance of Mr Stewart, that tabulates, on page A11, that the cost ratios under extreme circumstances—and you can expect those this summer. In a summertime experience, instead of a \$70 per megawatt cost, you can expect as high as—Cal-ISO, down in California, paid as high as \$9,999, which is approximately 140-fold the rate.

If you look at appendix B, which deals with the issue of infrastructure, that has some application to what we're talking about today.

If you look at appendix C, which is a paper by Jack Biddell that was presented to Mr Eves, it's clear Ontario Hydro has always been a contributor to the economy, not a loss.

Appendix D points out the electricity rates around the world. Basically, Canada and Ontario are simply the cheapest rates as a regulated monopoly. To deregulate simply raises the costs and gets into cost-push and all kinds of other corporate fun and games, which are discussed in appendix A. Some of that is pretty tawdry and messy, and that brief was written pre-Enron and pre-California.

Any questions?

Mr Bryant: Thank you for coming down. Just a quick question. You mentioned "we" a couple of times. Are you representing an organization?

Mr Norris: I'm representing an organization that is being formed but which is currently unnamed.

Mr Bryant: Sometimes those are the best ones.

You make reference to the elimination of "the goofy stranded debt." Could you expand on that a little bit?

Mr Norris: "Stranded debt," according to the Minnesota paper, is a very false item, very strange accounting.

Let me draw an analogy with you buying a house. You come home and your wife tells you she just sold the house. Your house is valued at \$580,000, and she sold it for \$58,000. Let's see: you just added the deck, you just added the kitchen improvements and all the rest of it, and she's selling it for just the price of the improvements. That is rather strange accounting. In the case of stranded debt, it's a very false item because—and also, as part of the transaction on the house, because of a leak in the roof, you have to pay off the mortgage. In the case of stranded debt, if somebody wants to privatize and buy the system, they buy the debt and the obligations that go with it. You don't set it aside over here for taxpayers to pay, or the existing homeowner in the analogy. Does that explain the concept?

1730

The Vice-Chair: Sorry, we're going to try to get all the parties in here. Ms Churley, would you like to ask a question?

Ms Churley: Yes. Thank you for your presentation. It looks like some very interesting documentation in here which I'll certainly take a look at.

I just wanted to ask you a little bit more specifically about beneficial implications of BOCC. I have been hearing about this Bank of Canada draft idea for some time and it never goes anywhere, and yet you're proposing it as one of the solutions here. Could you expand on how you actually see getting the government to implement such a plan?

Mr Norris: In the case of the city of Toronto, Paul Hellyer and I advocated those back in 1996. I advocated them again and requested a hearing. At that time there was an indication there would be a seminar, as requested, held on Bank of Canada credits, because at that stage the city of Toronto was paying around 12% for its money. Now, you and I can go out and get a mortgage for as low as probably 3.5%. Governments by definition are bloodless. They never go bankrupt. So why would such a good risk pay fourfold what you and I pay, who are subject to death, dismemberment and all the rest of it? Why would they have to pay fourfold? So what we are advocating is use of Bank of Canada credits.

In the case of the city of Toronto, something like \$400 million could have been saved, or that \$400 million could have been used to strengthen the school system, to add infrastructure, strengthen the safety net and all kinds of other positive implications.

Ms Churley: So why doesn't it happen?

Mr Norris: I suspect there's probably Bay Street involvement. They don't want you to know about it. Why Messrs Chrétien, Martin and David Dodge don't tell you about it, I don't know. You'd have to ask them.

Mr AL McDonald (Nipissing): Mr Norris, I guess what you're trying to tell us is that we should just leave it the way it is.

Mr Norris: No, I'm advocating that you go further, that you start deprivatization of OPG right now and

deprivatization of Highway 407, which has a cost premium to Ontario taxpayers in excess of \$840 billion and a loss of credit in excess of \$8 trillion over the life of the contract. Also kill any further privatization proposals, as advocated by various groups.

Mr McDonald: I don't understand what Highway 407 has to do with Hydro One. But I'll just give you my sense. I live in northern Ontario. Hydro One services us and has serviced us for the last 30 years, for example. In the last year, we've lost our hydro 26 times, ranging from an hour to 48 hours, twice in excess of 24 hours. If you're stating that everything is fine the way it is, how do I explain to the people in northern Ontario who aren't being serviced very well that this is working fine?

Mr Norris: We certainly have a rate advantage relative to the rest of the world, if you look at appendix D.

Mr McDonald: But I'm asking how the people of northern Ontario are being served well by Hydro One when we lose our power from 24 hours to 48 hours.

Mr Norris: Certainly that's a problem. It's perhaps a regulation problem or a maintenance problem.

Mr McDonald: A regulation problem? But right now it's publicly owned and it's not servicing northern Ontario. What I think I'm hearing from you is that we should leave it the way it is.

Mr Norris: Well, if you look at schedule A, you'll find that the record of private industry is not as effective or is worse.

Mr McDonald: But we're not talking about private, because it's not private now. You're advocating that we leave it in public hands. We've been without power for 24 to 48 hours on two occasions just in the last year. What I'm asking you is, is that OK?

Mr Norris: Of course not.

Mr McDonald: That would be my concern.

Mr Norris: But the alternative to privatization—

Ms Churley: Is even worse.

Mr Norris: Is even worse, based on the experience. That's detailed in appendix A.

Mr McDonald: I'd have to disagree, but that's fine.

The Vice-Chair: Thank you very much for coming before the committee today. We appreciate your coming in.

Mr Norris: Thank you.

The Vice-Chair: We will recess for 10 minutes, until after this vote, and then we have one more person.

The committee recessed from 1736 to 1745.

ROBERT CAMPBELL

The Vice-Chair: We will bring the committee back to order. Is Robert Campbell here? Welcome, Mr Campbell. You have 10 minutes to use as you please. You can either speak the whole time or if you want to leave any time for questions, feel free.

Mr Robert Campbell: Thank you, Mr Chairman. I appear simply as an individual. I am a member of the

Ontario Electricity Coalition but I'm not appearing officially for the coalition, only as a private citizen.

There are two main points that I would like to address with respect to Bill 58. The first of these is the matter of foreign ownership. I would like to say that the degree of foreign ownership in the Canadian economy is one of the highest, if not the highest, of the developed countries. It used to be referred to in Europe as the Canadian disease, not to be tolerated there to anything approaching the same extent, much less in the United States.

This was the condition of the country at the time of the introduction of the Canada-US free trade agreement in 1989. Since then, foreign ownership of the Canadian economy has greatly increased as a result of the FTA and particularly since the introduction of NAFTA in 1994. The result of this has been the substantial de-industrialization of Canada, particularly in the case of Ontario as a highly industrial province. The process has often been accomplished by way of takeovers and buyouts, not infrequently financed by the Canadian commercial banking system with little infusion of foreign capital.

The proposed privatization, even in part, of Hydro One exposes Ontario's economy to further foreign inroads by introducing—we have already had the introduction of the competitive market and now the beginning of the privatization of the electrical system.

The relevance of another country's experience in this process I submit is very salutary. I would like to refer to the experience of New Zealand. In that case, New Zealand began privatizing the electricity system in their country, which was formerly a state-owned enterprise, in 1986. It began this process by converting what was then publicly owned segments of the system into separate operational units, and the transmission network was commercially isolated through a subsidiary which they called Transpower. These two corporations were then separated into a transmission and a generating segment. The generating monopoly was split into two competing state-owned enterprises and the elected boards, the public boards of these corporations, were then transformed. They became commercial corporations and the government-appointed boards of directors became participants in what were formerly the public entities into commercial corporations.

1750

This process is very well documented by Jane Kelsey, who is a law professor at the University of Auckland. She wrote about this subject and has very carefully documented it in a book in which she says that the Minister of Energy at that time made clear that he wanted privatization of these entities, and preferably with tradable shares. I think there's an analogy between that experience and what is happening in Ontario.

One specific example of these privatized former public utilities—and this was a transmission company—was the company that fell heir to the transmission system that supplied part of the power to the city of Auckland. It did this by an undersea transmission system that had four power cables. The company was Mercury Energy and it replaced what was formerly a public power board.

Mercury then had successive power failures in this undersea corridor. They failed in quick succession in 1998, the very year of the passage of Bill 35 that brought in the restructuring of Ontario Hydro. One of these cables failed on January 22, one failed on February 9 of the same year and the third on February 19. The fourth of these cables failed on the following day. The result of this complete collapse of the transmission system supplying part of the city of Auckland shut down a large part of the city, including hospitals, high-rise buildings and businesses, which were completely without power except for emergency power that was supplied by diesel emergency units. The extent of the failure was so striking that a cargo ship in the harbour of the city was pressed into service to supplement the failure of this supply of power.

I simply say this as a possibility of what the future could bring if the continuation of Hydro One's uncertain future is dealt with—we have had nothing to assure us that things are going to go right and I think there is every indication that they could go wrong. I strongly urge that any proposal to privatize Hydro One or part of it be voted down on behalf of the people of Ontario.

The Vice-Chair: Thank you very much. There is time for a question from the official opposition.

Mr Conway: Mr Campbell, let me ask you this question: accepting the vital public interests that are at play in the electricity business, particularly in a country that is sub-Arctic for four or five months of a normal year, and accepting a very healthy measure of public ownership, what do we do about a situation where—the case you have cited about New Zealand, which is as you have described it, presumably. We were told in this very room about five or six years ago that after 40 or 50 years of public ownership of our public generation, we were running a whole bunch of minimally acceptable power plants, some of which were getting close to being a threat to public safety.

I raise the question because this is a big, important, complicated business, the electricity business. We're at a bit of a crossroads in Ontario because decades of public ownership, particularly in the generation side of the business, have brought us to a very, very troubling point in our development. Help me with that difficulty.

Mr Campbell: I would reply to that in two ways. First, if I'm not incorrect, I would say Ontario Hydro, as a vertical system—except for, I suppose, the local distribution systems, the municipal ones were all part of the same system. But they were really integrated into it and it was in effect a vertical system so that it was completely within the public domain. It was in a situation where the controlling interests, which would be the government on behalf of the people of Ontario and, I suppose, the users in the municipalities, were able to deal with this big picture. Hydro had actually built up, really, Ontario's economy by industrializing the province and, second, it had electrified rural Ontario.

Mr Conway: That's all true. Time is running very short here and I just want to make this point, though. In the last 30 or 40 years, Ontario Hydro was largely a nuclear design, construction, engineering and nuclear power operation, and it was in big trouble by the mid-1990s, notwithstanding the fact that three different political parties had had responsibility for its oversight and management.

I accept your argument about the importance of public ownership and control, but an objective, fair-minded person might look over the last 40 or 50 years and say that politicians didn't do a very good job, particularly on the generating side, of exacting a reasonable standard of accountability and performance.

The Vice-Chair: Mr Conway, I'm afraid we're out of time. Thank you very much for coming today to the committee, Mr Campbell. I'm afraid we have to adjourn for the day. We'll be back tomorrow at 3:30.

The committee adjourned at 1758.

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