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Mercredi 7 octobre 2015

**Standing Committee on
Estimates**

Ministry of Energy

**Comité permanent des
budgets des dépenses**

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Hansard Reporting and Interpretation Services
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ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

STANDING COMMITTEE ON
ESTIMATESCOMITÉ PERMANENT DES
BUDGETS DES DÉPENSES

Wednesday 7 October 2015

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The committee met at 1553 in committee room 1.

MINISTRY OF ENERGY

The Chair (Ms. Cheri DiNovo): Good afternoon, members. We are here to resume consideration of the estimates of the Ministry of Energy. There are a total of eight hours and 28 minutes remaining.

Before we resume consideration of the estimates of the Ministry of Energy, if there are any outstanding inquiries that the ministry or the minister has responses to, that information can be distributed by the Clerk at the beginning in order to assist the members with any further questions.

Do you have any responses to outstanding inquiries, Minister? Yes or no, Minister?

Hon. Bob Chiarelli: No.

The Chair (Ms. Cheri DiNovo): No? Okay. When the committee was adjourned yesterday, the third party had four minutes remaining in their question rotation. Mr. Tabuns.

Mr. Peter Tabuns: Thank you, Chair. Good afternoon, everyone. The first question, Minister, relates to the question I asked the other day: the enforcement of the government's ownership of 40% of Hydro One. I was told by the deputy minister that the legislation says that the government "shall" keep ownership of 40% of the shares. What will the penalty be for the government if it doesn't keep 40% ownership?

Hon. Bob Chiarelli: First of all, the legislation has been amended to allow—to require—the government to hold a minimum of 40%. It is mandatory in terms of acting on it. That would likely occur if Hydro One on its own issued more shares. We have a pre-emptive right—a pre-emptive requirement, in fact—if we go below 40% to exercise that.

There are a number of reasons why there's no time limit. I think it's appropriate that there be no fixed time limit on it. First of all—

Mr. Peter Tabuns: Minister, I think you're straying from my question, which was—

Hon. Bob Chiarelli: I didn't get to my punch line yet.

Mr. Peter Tabuns: Well, what I had asked is, "Is there a penalty for a minister who does not maintain the 40% ownership?"

Hon. Bob Chiarelli: The penalty would have to be determined at the time, depending on who would take

action to try to enforce that, if it was not done in a reasonable period of time.

Mr. Peter Tabuns: Is there a penalty—

Hon. Bob Chiarelli: It would be the law that they're required to do it.

Mr. Peter Tabuns: And there's a penalty in the law for not meeting that requirement?

Hon. Bob Chiarelli: Well, depending on the nature of the action that might ensue from that—but I'll turn that over to Ms. Geraghty to expand on that.

Mr. Peter Tabuns: So what's the penalty?

Ms. Sharon Geraghty: Let me start again with the fact that there is a mandatory requirement that the government cannot take any action that would cause it to go below 40%—

Mr. Peter Tabuns: I know that. It can't do it—

Ms. Sharon Geraghty: The only way that it could therefore go below 40% would be if new shares were issued, and there is pre-emptive right where that's for cash. If, as a result of that, it goes below 40%, the government has an obligation to go above 40%. Like every other obligation in the statute on the government, it's mandatory. The government has got an obligation to do it, and it's no different from any other provision—

Mr. Peter Tabuns: And the penalty if it fails?

Ms. Sharon Geraghty: It's no different from any other mandatory provision in that statute. The provisions of that statute require the government to do a number of things—

Mr. Peter Tabuns: And is there a penalty?

Ms. Sharon Geraghty: Are there penalties for other things that the government does? There is no specific penalty because there is no specific deadline for it. There is no specific penalty; however, the legislation is an act of your Legislature. Like any other legislation, you have the means to call upon your government to comply.

Mr. Peter Tabuns: I'll just point out to you that when we found that Liberal staff were deleting their records in contravention of legislation, no charges were laid against anyone and no one was penalized, even though people sat in a chair comparable to where you're sitting and said, under oath, that they destroyed all their records.

Ms. Sharon Geraghty: If you're asking me to speculate that the government is going to deliberately breach the legislation, I'm not speculating that they would do that.

Mr. Peter Tabuns: I'm asking if there is a penalty, and apparently there isn't, just as there was no penalty for destruction of government records.

Ms. Sharon Geraghty: It's a mandatory provision.

The Chair (Ms. Cheri DiNovo): I think we're going to have to leave it there, Mr. Tabuns.

We're going to move to the government side now. Mr. Ballard.

Mr. Chris Ballard: Thank you for your answers, Minister. This has been a fascinating committee, and it's one that has given a relative newcomer to the House some really good background on a variety of different ministries. I appreciate the time and thought that you and your staff put into responses.

I have a question that focuses on regional electricity planning. It's of interest to me. Ontario is such a geographically diverse province. I don't have to tell you that; you've criss-crossed it dozens of times. We certainly know that a one-size-fits-all approach to planning, whether it be land use planning or municipal planning or electricity planning, is a sure-fire way to upset residents and businesses and not get the job done right. Often, my constituents ask me about how the government can be sure that it's implementing the right project in the right location.

Just to go back to that right-size-fits-all: Coming from a small community to the north of Toronto, being a town councillor there for many years, it was often frustrating to try to understand decisions that either the provincial or federal government was making that may have had impact on our municipal government, without them seeming to really have any understanding of what the special aspects were for our community and, indeed, small communities across Ontario.

It does me make chuckle when I'm painted as being someone from Toronto, when in fact I'm someone coming from a small community of about 800 people and represent a somewhat larger community. Certainly, that concept of one-size-fits-all is not one that I see in play these days, so we'll touch on that in a bit.

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I wanted to, just to demonstrate the one-size-fits-all, go back just a minute to the concept of good electricity planning. I know that in our community, for many years we had a good, solid electrical distribution company known as Aurora Hydro. The founding fathers—and it was primarily fathers in those days—built that company and it grew. It was a municipal asset. But over time, what happened to it is that it just didn't have the capital to meet the growth of our community.

I can recall that when I first moved to Aurora, which is right next door to where I grew up, I think there were something like 12,500 people; it's at 56,000 people and growing today. So, somewhere around the 40,000 mark, Aurora Hydro realized that it just didn't have the capacity, it didn't have the capital, to meet the requirements. I recall when we bought our first house in Aurora that there were monthly blackouts; there were ongoing brownouts. I lost track of the number of times that I had to reset all the digital clocks in my house. The microwave—I think we just let it blink "0000" all the time, we were so sick and tired of fixing it.

To the detriment, though, of our economy, some of our major industries were threatening to leave because they needed good, clean electrical power and they weren't getting it through Aurora Hydro. So we merged. We sold to PowerStream, and PowerStream invested tens of millions of dollars to bring the Aurora system up to speed, invested in a new distribution line into our community, and I can tell you now that blackouts are few and far between. It may be that a tree fell on the line somewhere, or it's a windstorm. It's not because of lack of capacity. The benefits to having PowerStream run the system now have been quite spectacular.

Those companies, Mr. Minister, that would talk to me about having to move—not because they wanted to; it wasn't about taxes; it wasn't about pricing; it was about reliability and quality of electrical supply—they're quite happy, now, to stay in Aurora and continue to build their customer base. But it got us thinking, in those days, about that whole concept about regional electrical planning, because we realized that Aurora obviously can't do it on its own. It can't create any electricity. It was just a distribution arm. It really drove home for us how we were so joined at the hip with the municipalities around us that we needed to think more than about just ourselves and more on a bigger picture.

So getting to my question, Mr. Minister, what I want to know is: What can you tell us about what the government is doing to support regional electricity planning in Ontario?

Hon. Bob Chiarelli: Thank you very much, MPP Ballard, for your question and for the premise of the question.

There's been a significant improvement and enhancement in the planning part of the electricity system, which, for a lot of people, is not on the radar screen; it's not a sexy issue in the energy theme, but is absolutely essential in terms of creating a reliable system. The planning is, basically, the foundation of having a reliable system.

You referred to the consolidation that took place in your community. Our policy of encouraging consolidation and, in fact, trying to make consolidation happen without forcing it is part of planning a better system, and part of our policy.

To answer your question more specifically, the IESO did very extensive consultation on a direction from the ministry and myself to consult in terms of the importance of regional planning—how to engage communities and stakeholders about it—and I think it took about nine or 10 months of very, very extensive consultation, including travelling across the province to consult with the stakeholders etc. Changes were introduced by the Ontario Energy Board as a result of that in 2013, and they were also very significantly involved the consultations to enhance the planning process by ensuring that transmitters, distributors and the IESO worked closely to identify solutions for regional electricity needs and by encouraging greater municipal involvement and public participation.

In the fall of 2013, the Premier accepted all 18 recommendations to improve regional planning. The IESO,

along with the transmitters and distributors, are working closely to identify solutions now for regional electricity needs. Planning is already under way in 14 of the 21 electricity regions designated in Ontario. Planning in the remaining seven regions will begin over the next few years. So that's been accomplished in the space of about two years so far.

Seven integrated regional resource plans, or IRRPs, as they're called, were released in April 2015, for a total of eight plans released to date. These plans provide near-term recommendations that consider conservation first and focus on transmission options to meet electricity needs. Needs in these planning areas will be reviewed within five years or sooner, if needed.

Our government also relies on the Municipal Energy Plans, or MEPs, a program which is designated to help Ontario municipalities understand their energy use through a community energy planning process. An MEP is a comprehensive long-term plan to improve energy efficiency, reduce energy consumption and greenhouse gas emissions, foster green energy solutions and support economic development, including reliability to that particular region.

Through the MEP program, municipalities can receive 50% of eligible project costs, up to a maximum of \$90,000, to complete a community energy plan. Municipalities that already have plans can receive 50% of eligible project costs, up to a maximum of \$25,000, to fund enhancements, updates or augmentations to existing plans.

The ministry is currently accepting applications, and has been for a while, from all municipalities on an ongoing basis. Twelve municipalities have received or been approved for funding, including Chatham-Kent, Kingston, Markham, Newmarket, Temiskaming Shores, Vaughan, Wawa, Woodstock, Sault Ste. Marie, the region of Waterloo, Windsor and Caledon. The ministry is currently reviewing an application from the municipality of Middlesex Centre, and I understand that just a couple of weeks ago the city of Ottawa received funding from an application.

The MEP program complements the regional electricity planning process by focusing on unique community needs and goals. The program supports municipalities to develop plans that focus on finding opportunities for greater energy efficiency and new clean energy projects.

We also have the Aboriginal Community Energy Plan Program, which is designed to help First Nation and Métis communities across the province understand their energy use through a community energy planning process. A community energy plan is a comprehensive long-term plan to improve energy efficiency, reduce electricity consumption and assess opportunities for clean energy solutions. Through the ACEP program, aboriginal communities can receive up to \$90,000, or \$95,000 for more remote communities, to complete a community energy plan. For communities that already have a community energy plan, up to \$25,000 is available to update their plan.

The Independent Electricity System Operator, the IESO, is currently accepting applications on an ongoing basis. To date, 44 communities have received ACEP funding, with additional funding recipients to be announced soon. Our government will continue to honour our commitment to giving communities and municipalities a stronger voice when it comes to the development of any energy infrastructure.

Now I would like to ask Deputy Minister Imbrogno and ADM Kaili Sermat-Harding from the strategic, network and agency policy division to expand further on this point.

Mr. Serge Imbrogno: Before Kaili starts, I would say, as we looked at doing planning, initially it was the bulk system—major transmission, big generators. I think the system has evolved now where we're focusing more on regions and making sure that we integrate IESO planning, OEB planning, with what municipalities are doing. I think that's one of the things we learned when we did our consultation.

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When you are looking at regional planning, you could have a transmission, generation, conservation solution, with all the partners working together. In order for all of the partners to work together, we need to provide funding to municipalities to engage in a program to look at energy planning as part of their land use planning as well. We also need to work with First Nations and Métis communities to engage them as well. We try to fund both through a number of programs. I think Kaili can step through some of the more detailed—a bit of a deeper dive into those programs.

Ms. Kaili Sermat-Harding: Thank you very much, Minister, and thank you, Deputy. Good afternoon. My name is Kaili Sermat-Harding. I am assistant deputy minister of the Ministry of Energy's conservation and renewable energy division.

Thank you very much for the opportunity to outline the purpose and some of the key benefits of energy planning at the community or municipal level, and also to describe in a little more detail the ministry's efforts to encourage and support municipalities that are interested in undertaking planning at the municipal level.

As part of the government's commitment to put conservation first, the ministry is undertaking a number of initiatives to support local energy efficiency, energy conservation and the green energy objectives of the long-term energy plan. This includes supporting voluntary local community energy planning and engaging municipalities through the Municipal Energy Plan Program.

Launched in 2013, the program provides guidance to local governments on decision-making and planning for future developments by helping them understand their energy use through a community energy planning process. The program was developed by the Ministry through discussions with organizations like the Association of Municipalities of Ontario as well as relevant sister or partner ministries. Through outreach efforts with municipalities, ministry staff are actively engaged in on-

going promotion of the program and regular contact with municipalities that are interested in pursuing the development of these plans through either one-on-one outreach or through activities such as workshops, conferences and other opportunities.

Community-level energy plans are a way to document priorities for how energy should be generated, delivered and used in a municipality now and in the future. A plan is a comprehensive long-term plan intended to improve energy efficiency, reduce energy consumption and greenhouse gas emissions, foster green energy solutions and support economic development—

The Chair (Ms. Cheri DiNovo): I would just remind the government side that you have about five minutes left.

Ms. Kaili Sermat-Harding: A plan can help a community by increasing resiliency in changing times, as municipalities are facing the challenges of things like aging infrastructure and the impacts of climate change, including unpredictable weather; supporting the development of healthier and more sustainable communities; and helping to manage and create economic development as municipalities face competing priorities for funding and need to be competitive to attract investment opportunities, and to better utilize limited economic development resources.

There are a number of ways that a plan can help support and create economic development in the community: through avoided costs; retaining capital in the community; local and community-run supported energy initiatives can help keep energy dollars in the community; the use of energy programs and incentives can often be maximized through the planning process; and the development of a resilient economy, again, supported through new economic development and employment opportunities.

Maybe I can just turn to talk a little bit about the program in a little more detail. The minister mentioned that there are two streams of funding available. Stream one provides successful applicants with up to \$90,000 per project, or 50% of eligible costs, to develop a plan; whichever is less. The funding is allocated to stakeholder engagement; the gathering of baseline energy data; analysis of the data, which may include an energy map; and the creation of the plan.

Stream two provides successful applicants with up to \$25,000, or 50% of eligible costs, whichever is less, for the updating of an existing energy plan, climate action plan, or other type of plan, where updating of utility or structure data, updating of maps or plans would be useful.

The program itself is completed in three stages. The first is one of stakeholder engagement. That ensures that local stakeholders and organizations are engaged in the process of creating the plan. These stakeholders include municipal departments, elected municipal officials, local distribution companies, large institutional, commercial, and industrial energy users, business improvement associations, and local energy and environmental groups.

All of these stakeholders, then, through these meetings play a vital role in the development of the plan.

The second stage includes the development of some baseline energy studies and, potentially, energy maps. Those are helpful in measuring how much energy is used and helping municipalities understand where the opportunities reside. The map is also a useful tool for visually representing energy use in the community, and it helps communicate visually with the public and with the decision-makers about where and how much energy is used and where those opportunities reside.

The third stage is the development of the plan itself. Using consumption data from the studies, municipalities evaluate their opportunities by sector and then develop a plan.

As the minister noted, the ministry is accepting applications on an ongoing basis. To date, 12 municipalities have received funding. We're pleased to see that these represent a good cross-section of municipalities, both in terms of size of community as well as location around the province.

In addition to funding under the Municipal Energy Plan Program, we are also supporting some complementary initiatives, including providing funding to an organization called QUEST, which stands for Quality Urban Energy Systems of Tomorrow. That group is doing some complementary work in terms of workshops available to municipalities to help develop materials and modules that would help in the development of plans. QUEST is also interviewing municipalities to collect survey data about energy planning and holding discussions regarding any existing barriers or impediments to development of plans.

The findings from these interviews and workshops will help inform the development of the second part of QUEST's work, and that's the development of a model business case for developing and implementing plans in municipalities. That would allow municipalities to convey and calculate the economic benefits of implementing community energy plan actions.

The third project, and I'll just touch briefly on that, is really focused on small communities, where QUEST will work with small communities to develop some energy-planning data needs analysis, because small communities—and, there, we're looking at those with fewer than 10,000 residents—often face some challenges in terms of the energy data collection and the requirements. For example, a small community can often receive data from their utility based on postal code. A small community may only have a single postal code, or a single postal code may straddle a couple of municipalities. So again, the smaller municipalities and communities may have some challenges where QUEST's work can help identify some best practices.

The Chair (Ms. Cheri DiNovo): I think we're going to have to end it there. Thank you very much, Assistant Deputy Minister.

We now move to the official opposition. You have 20 minutes. Mr. Yakabuski.

Mr. John Yakabuski: Thank you very much, Chair. Thank you, Minister and Deputy Minister and the special counsel, for joining us today.

I'm hoping maybe we can change the tenor a bit by what I'm going to say. I hope the minister will take this in the kindest way. Estimates is different from question period, I find. You know how it's different? You still don't answer the questions; it just takes you a whole lot longer not to answer them. That's what I find here at estimates. But we're going to keep trying.

So \$1.1 billion in lost revenue for the first six months of this year on sales—energy that was sold at a loss to other jurisdictions. I'm going to get into the parts of that with regard to how much that adds up to, but you're probably just as good at math as I am. But I've got to ask the question: How can you get it so wrong that we lose a billion dollars in six months? And the record—it's been going that way for some time.

How can we have a system—we're supposed to have the best experts that we have manage that system so that the power being generated meshes with the demand across the province of Ontario. I understand we have to have some surplus capacity; there's no question of that. And there's always been an intertie system that helps to balance that out. But how can you get it so wrong that we're talking a billion dollars in six months? That's \$2 billion in a year. In two years, you'd have the \$4 billion that you claim you're going to get out of the sale of Hydro One.

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Our gas system is, for the most part, very dispatchable. Ramp it up; put the foot on the gas; take the foot off the gas—it's fairly flexible. Maybe not as flexible as coal was, but certainly quite flexible. Hydro, wrong as it is—and you keep doing it; you keep spilling water which could be used to generate power. And you never gave me that number, by the way; I'm still waiting for that, about how much the value of that is. But at least you can do that: If you've got an imbalance, you can allow the water to pass by the turbines. Nuclear is our baseload. You have a limited amount of flexibility. You can let off steam, whatever, but very little in that regard. So what is the problem?

The only thing left in the system, then, is your sweet-heart wind turbines and, to a very small degree, solar. I mean, it just doesn't produce that much power on a percentage basis. So why is it that we have these massive surpluses that you can't seem to control? Gas, you can control; hydraulic, you can control; nuclear is baseload, so we shouldn't even be thinking about that. Why are we losing \$2 billion in a year because of your inability to manage the intertie and the balance between generation and demand? Why is it? The people you have managing that system: Are they incompetent? Or are your policies and your energy generation choices the reason behind that?

It's going to be \$2 billion this year. I'm pretty comfortable in saying that.

Hon. Bob Chiarelli: I forgot the question.

Mr. John Yakabuski: Well, the question is—let me help you—how can you get it so wrong, and who is responsible for it? Is it you, the minister? Is it the gentleman beside you? Is it the people at the IESO? Or does it go right to the corner office on the second floor? Who's responsible, and who's going to take responsibility for it?

Hon. Bob Chiarelli: I'm going to answer the question and then I'm going to ask the deputy to expand on it somewhat.

I think you understand, more or less, how the system has to work in terms of adjusting on a minute-by-minute basis, on an hour-by-hour basis, on a season-by-season basis. So there are times, at very, very peak—

Mr. John Yakabuski: But how can you forecast it so wrong on given days?

Hon. Bob Chiarelli: Let me finish. It's not a question of bad forecasting. There are times in our summer peak when we're at 22,000, 23,000 megawatts.

Mr. John Yakabuski: Right.

Hon. Bob Chiarelli: There are times in any season when the consumption fluctuates, sometimes very significantly. So at 2 a.m., you might be consuming or putting out 8,000 megawatts to keep whatever has to be on when business is down, people are sleeping, that sort of thing, and then it comes up during the day, at different times of day and on different days of the week. So there is an operator—assume that it's one person with control of getting power up or down and getting power out. Okay?

Mr. John Yakabuski: I understand how it works.

Hon. Bob Chiarelli: You understand that. But here's the point: They have very sophisticated algorithm software—

Mr. John Yakabuski: Apparently not sophisticated enough.

Hon. Bob Chiarelli: —that can predict when you're going up and when you're going. So at a period when the demand is fairly low, or reasonably low, and you have the capacity or the ability to generate more power, and sell it—and the price varies. So I'm sitting there as an operator and I'm actually using, in Ontario, 15,000 megawatts, and somebody in another, adjoining jurisdiction wants to buy some power, and there's a market price for the power.

Mr. John Yakabuski: They'd buy from you because it's free.

Hon. Bob Chiarelli: No, I can say: "I'm not going to sell it to you for X dollars because it's not high enough. So I'm not selling it to you."

Mr. John Yakabuski: We understand how that works.

Hon. Bob Chiarelli: Or you could sell it, and that generates revenue that you otherwise wouldn't have.

Mr. John Yakabuski: I understand all of those things, Minister. That's not the question.

Hon. Bob Chiarelli: That's what happens, so just to give you the number—

Mr. John Yakabuski: If I could ask the minister to answer the question: Who's responsible?

Hon. Bob Chiarelli: Well, the answer to the question is: Revenue from electricity exports reduced costs for

Ontarians by \$320 million in 2014. That's because we've sold power when we didn't need it. We didn't have to consume it ourselves. It's perfectly logical—

Mr. John Yakabuski: So you had \$300 million in income and \$2 billion in losses.

Hon. Bob Chiarelli: —and a good business decision.

You were in the hardware business. It's not an exact analogy, but you were in the hardware business. You had an inventory that you had to sell. You get an inventory and it's a summer inventory—

Mr. John Yakabuski: You know, when I sold that inventory, I wish I had kept one hammer.

Hon. Bob Chiarelli: —and at the end of the summer, you've got summer inventory that's not going to sell. You're not going to use it in the winter, you've got to get new, so you put it on sale and you clear out your inventory because it's surplus. And you put the money in the bank. You have a choice of taking that inventory—

Mr. John Yakabuski: Chair, he's not answering my question.

Hon. Bob Chiarelli: —and putting it in a landfill, or you could actually sell it at a discount. Did you ever put anything on sale? Why did you put it on sale?

Mr. John Yakabuski: Okay, he's asking me questions now. I'll take it over.

Hon. Bob Chiarelli: You were giving it away?

Mr. John Yakabuski: Thank you very much, Minister.

Hon. Bob Chiarelli: The deputy has to finish. The deputy has to answer the question. No, I'm sorry. Deputy, answer the question.

Mr. John Yakabuski: No, I have some other questions, Deputy.

Hon. Bob Chiarelli: Deputy, answer the question.

Mr. Serge Imbrogno: I'll be very concise.

Mr. John Yakabuski: No, you won't. Thank you very much.

The Chair (Ms. Cheri DiNovo): I think Mr. Yakabuski has the floor—

Hon. Bob Chiarelli: We have a right to answer the question.

Mr. John Yakabuski: My question was: Who's responsible? I didn't get a—

Hon. Bob Chiarelli: Are the answers time-limited?

Mr. John Yakabuski: I want to point out, Minister: No other jurisdiction—I'll give him a chance on this one, providing you don't—seems to have the same problem with the balancing, and you know why? I know how the IESO works. They forecast power every hour. They're continuously forecasting power. And why do they get it wrong? Because we don't control Mother Nature. We can control the gas plants. We can control the hydraulic plants. We know what we're getting with nuclear. But you don't know what you're going to get at 2 o'clock in the morning from your turbines. And all of a sudden, you've got a slew of power, and you have no customer to use it in the province of Ontario. So you're giving it away.

Hon. Bob Chiarelli: We don't use it because wind is subject to dispatch now.

Mr. John Yakabuski: Oh, so you're going to tell me that you're controlling the wind that comes into the system?

Hon. Bob Chiarelli: The IESO has one of the best operating systems in the world, certainly in North America.

Mr. John Yakabuski: Well, it ain't working that well, then, is it, or we wouldn't be giving away \$2 billion of power in a year.

Hon. Bob Chiarelli: It's working extremely well. Not only is it working extremely well; the other systems are operating in the same system, doing the same thing.

Mr. John Yakabuski: They're not losing \$2 billion a year. You name me a jurisdiction that sold \$2-billion worth of power at a loss.

Hon. Bob Chiarelli: We purchase power below cost all the time.

The Chair (Ms. Cheri DiNovo): One at a time, please.

Mr. John Yakabuski: Thank you very much, Chair. You're doing a good job.

My point is that if you were able to control the system and balance that—the problem was never, ever to this extent until you people brought in your Green Energy Act.

Hon. Bob Chiarelli: Because you had a deficit. You didn't have any surplus to sell. You were operating at a deficit.

Mr. John Yakabuski: It was never the extent until you people brought in the Green Energy Act. Even under you, until you brought in the Green Energy Act, you never had the challenges balancing the system until you brought in the Green Energy Act.

Supply has increased, demand has dropped, but you continue to exacerbate the problem. And that's why it grows. Every year we seem to be exporting more at a loss than we were the year before because you continue to put more essentially undispachable power, uncontrollable power, one that you don't have the switch for, into the system. That is one of the things that is driving up the price of power. So why do you continue to insist on doing that? That's an answer that I'm not asking for because I really don't have the 20 minutes to get the answer. I'm going to move on.

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In May of this year, rates went up by \$5.71 a month for the average consumer. That's \$70 a year. This year, you're going to cancel the clean energy benefit. That's going to be \$1.1 billion more onto the hydro bills. When you're calculating your increases this year—and I know you're going to say that you're going to be getting rid of some other things. But if you look at \$70 for the increase, we're looking at another increase in November—you claim you don't know what it's going to be, but I do believe you have some of those numbers that will give some people some idea of what it's going to be, because you know what's been happening in the last six months.

The Ontario Energy Board isn't going to just pick a number out of the sky on Halloween and say "trick or treat" to the people of Ontario. It's going to be one that has been based on all of the things, the criteria, that have been happening over the last several months

Altogether, we've got a \$70 increase in May, another \$8.40 for the Ontario Electricity Support Program and then the removal of the clean energy benefit, so that's about an increase of \$230 in one year before you include the November 1 increase. So when you're telling people that they're going to rise 42% between 2013 and 2018, have you calculated all of those changes, including the removal of the clean energy benefit, in that calculation of 42%?

The Chair (Ms. Cheri DiNovo): I'm going to remind you, Mr. Yakabuski, that you have about five minutes left.

Hon. Bob Chiarelli: As you may be aware, in the 2013 long-term energy plan, there were price projections over a 20-year period. We adjust those projections on an annual basis. We have been taking very significant costs out of the system, including new nuclear, including \$3.9 billion out of the Samsung contract that we had. Dispatching wind reduced the costs significantly out of the system. There are a number of other cost savings that we've done.

Where there have been pressures, they've been added in, too. On an annual basis, there are cost pressures, and we reduce the cost pressures. We have an overriding policy in the ministry. On a regular basis, we speak to the various agencies that we have been working with, and they have to report back in terms of how they're containing costs as part of our system.

I'm going to turn it over to the deputy and he's going to refer to where those projections are and in fact how the projections are coming down.

Mr. John Yakabuski: I have another question, though, first.

Hon. Bob Chiarelli: No, we want to answer this one first. Be patient.

Mr. Serge Imbrogno: As the minister said, in the long-term energy plan, we provided a forecast going forward, taking into account all the changes. In addition to that, we would have factored in all the savings that the minister talked about. We tried to be as transparent as possible. There are modules that we also provided that give all the detail that go into that projection. We have that on our website. There are six modules. Each module has all the details that break out our cost projections.

The OEB, as of today, would have whatever information they would need to do their projection going forward, which may vary slightly from our LTEP projections depending on where the forecasts have been. I can't forecast where the OEB is going to come out with their update November 1, but our LTEP projections try to take into account all the cost pressures and also all the cost reduction pressures. So we would have understood that the DRC would have changed and that would have been added on and so on.

Mr. John Yakabuski: Going back to the minister, he says he can dispatch the wind—well, he can't dispatch the wind, but he may believe that he can dispatch the wind generators and tell them, "We're going to take your power or we're not going to take your power"—

Hon. Bob Chiarelli: Dispatch means, yes, we're going to the power and you're not getting paid for it.

Mr. John Yakabuski: Yes, I understand. You're going to take the power or you're not going to take the power.

Hon. Bob Chiarelli: The risk is with the generator.

Mr. John Yakabuski: So all of the people who are currently in the system—or were in the system before you changed the rules—you tell generator A, who had a contract with you—

Hon. Bob Chiarelli: It applies to all of them, old and new.

Mr. John Yakabuski: It applies to them all. So you're saying that if you're not taking their power, you're not paying them a nickel?

Hon. Bob Chiarelli: It's on the same basis as the other types of—

Mr. John Yakabuski: So what basis?

Hon. Bob Chiarelli: It's on the same basis as the other types of generation, in the sense that the power purchase contracts that are there for gas, for example—they will get paid, sometimes, for power they're not generating under their contract, because the demand is down or for whatever other reason. You could not actually operate a business relationship with any of them if there was not some kind of control or a governor over that particular issue.

Mr. John Yakabuski: Understood. You don't have to explain that, yes.

Hon. Bob Chiarelli: So they have been put in the same place, under the same type of formula as the other generators.

Mr. John Yakabuski: So would you provide that formula to the committee for the next meeting—the formula for how you pay those generators when they're not actually putting power into the system but they have the capacity and they're turning, but they're not putting it into the system? You're paying them for not producing power.

Mr. Serge Imbrogno: If I could just expand on what the minister was saying, when generators became dispatchable, there was a negotiation between the IESO and the people that had contracts. The IESO negotiated a set amount of hours where they could dispatch them off without providing any compensation. And then above a certain amount of hours, they would receive compensation.

Mr. John Yakabuski: Right. Can you give us the details of those contracts? Not the individual, because you said they're all the same. So—

Mr. Serge Imbrogno: There were negotiations with the contract holders, which I believe are confidential, so we can't disclose exactly what's in each of those contracts.

Mr. John Yakabuski: We're not talking about each contract. The minister just said, "They're all the same." So we need to know: Can you tell the committee what the number of hours is, how much they get paid when they're turning, how much they get paid not to turn—those kinds of things. You don't have to give the names—

The Chair (Ms. Cheri DiNovo): I'm afraid your time is up, Mr. Yakabuski.

We're going to move on to the third party, Mr. Tabuns, for 20 minutes.

Mr. Peter Tabuns: Thank you, Chair.

Minister, I understand that your government is expecting to raise \$9 billion in proceeds from selling 60% of Hydro One, which would indicate a market value of about \$15 billion. What's the basis for that valuation?

Ms. Sharon Geraghty: I just have to—may I just interject? One of the things that we clearly can't do as a legal matter is speculate about the value of the shares of Hydro One in that sense. Obviously, let the minister explain how they've come up with their estimates in response to this, but it's very important, and I just wanted to remind him that we not—this is very sensitive; it's a very important issue from a regulatory point of view—that we not be perceived to be talking about what he is expecting to obtain in this offering, or future offerings for the shares of Hydro One. It's an important legal point, and I just wanted to—

Hon. Bob Chiarelli: To be compliant with the securities regulator.

Mr. Peter Tabuns: Fair enough. But I've been told, and I've heard repeatedly in the House, that we're going to raise \$5 billion to pay down debt and \$4 billion to pay for infrastructure. When I add those numbers together, I get \$9 billion. There may be restraints on speculation, but based on the public statements made by this government over a number of months, that's the number that people in this province are expecting.

Ms. Sharon Geraghty: And I just want to emphasize again the legal point and also remind people that this is one tranche of shares that's being proposed to be made now, and then tranches in the future—and that's why it's important as a legal matter that we not speculate publicly about the value that will be obtained in this offering. It's just a very important point. I'm going to obviously let the minister respond, but I wanted to explain why he has to be careful in his response. He will respond, but—

Mr. Peter Tabuns: His government has been stating that number all over the province for a while.

Ms. Sharon Geraghty: I have no concern about what his government has been saying, as a legal matter. I just wanted to explain that as you press him with the questions, I have advised him to be very cautious about how he answers them.

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Mr. Peter Tabuns: Okay.

Hon. Bob Chiarelli: Deputy?

Mr. Serge Imbrogno: The government has said that it will expect the \$4 billion in proceeds that would be invested in the Trillium Trust. It's also expecting to pay

down \$5 billion in debt. Those are the parameters that have been out there. I think that's in the public domain.

Mr. Peter Tabuns: How did you come up with a valuation of \$15 billion for Hydro One?

Mr. Serge Imbrogno: I don't want to get into how that valuation was made. There was a range in the Premier's council report of \$13.5 million to \$15 million, but that was at a point in time and there were certain assumptions that were made. I'm trying to delink that from what we're talking about with the \$4 billion and \$5 billion—

Mr. Peter Tabuns: I'll set aside the amount you expect to raise from the sale. How was the valuation reached of that \$13.5 billion to \$15 billion for the market value of Hydro One?

Hon. Bob Chiarelli: There were very extensive analyses done by the members of the task force, who are very experienced in these types of valuations. There was very significant market testing with other investment bankers and people who are in the electricity sector and so on and so forth.

There are certain formulae that are assessed. They look at rate of return. They look at asset value. They look at possibilities for appreciation in value of the shares over time. There's a whole number of factors. That information was assimilated and digested. The \$5-billion and \$4-billion numbers that were put out quite some time ago—we expect to have those numbers verified in the very near future, and that those numbers are holding.

Mr. Peter Tabuns: About a week ago, Bloomberg reported that the IPO market was heading to its worst year since the financial crisis of 2008. How has the change in investor climate since April changed the estimated value of Hydro One?

Hon. Bob Chiarelli: The experts that we have advising us have been following the market. As a result of their analyses and advice to us, we feel confident that the \$5-billion and \$4-billion numbers are holding.

Mr. Peter Tabuns: So you're expecting that the market will be as good now as it was when the numbers were calculated in the spring?

Ms. Sharon Geraghty: Again, I just want to caution: I think the minister is being very careful not to speculate about what's going to happen in the market or what's going to happen on this offering.

Mr. Peter Tabuns: Maybe this is a requirement of securities legislation, but I do have to say, when we can't ask about the public business of the province anymore, when we're shielded from that, it speaks to the level of alienation of the public interest from the actions the government is taking.

Ms. Sharon Geraghty: I want to assure you that I'm not suggesting he can't answer the questions. I simply want to explain what's also a very important public-interest concept that your securities regulators, that your securities legislation imposes. The minister is being asked to respect that as well as respond to your questions.

Again, I did not mean to suggest in any way that he was not responding to your questions. I just always want

to remind people because it's very important. I've just impressed upon him, in responding in this particular area, how important it is, but I did not say that he was not going to respond to your question. I think he has continued to do so. I just wanted to explain the principle again because it's not one that you deal with every day—

Mr. Peter Tabuns: You're right. We don't often sell off big chunks of the province.

The discussion that we had the other day, Minister, in which you talked about the difficulties that will be faced by local distribution companies and by distribution and transmission companies generally—I'll just read what you had to say: "What I'm saying—I don't think I've made clear what I was saying. What I'm saying is the business case that we know now for LDCs will not be holding up over time because they're going to be getting less revenue because there's less consumption and less demand."

I assume if it's true for LDCs, it's also true for transmission companies—that they will be facing a much tougher market in the years to come. Is that correct?

Hon. Bob Chiarelli: I was very clear in pointing out that the distribution sector is well positioned to take advantage of growth markets, growth commodities and growth products in various ways.

If you look at a company like PowerStream, they're adapting very, very well. If you look at Peterborough power, for example, first of all, they're in the generation business, not only distribution, and that's adding significantly to their bottom line. If you look at Hydro Ottawa, they're in the process of expanding as a distribution company only. They own a dam on the Chaudière Falls in the Ottawa River and they're adding 35 more megawatts to that.

The member from Renfrew–Nipissing–Pembroke knows quite well—I was in Renfrew just a week and a half ago, where we were renovating and expanding an existing dam for Renfrew Power, and it was going to generate revenue for them.

What I was saying is that there need to be changes which provide a lot of upside, but it's not strictly in the distribution side. Indeed, we've amended the legislation, the Ontario Energy Board Act, so that—and virtually all of the municipal LDCs, private or whatever, have a holding company; so their strict distribution business is in an operating company, and in the holding company they operate other revenue streams and they have other business expenses. They don't want to intermix that with the rating process before the Ontario Energy Board.

In the case of Hydro Ottawa, for example, expanding the dam—in fact, they just bought several dams in New York state—

Mr. Peter Tabuns: No, you noted that as well the other day. I can quote you. You're repeating exactly those talking points, Minister. I appreciate your memory on these matters—

Hon. Bob Chiarelli: Those are facts. They're not just talking points; they're facts.

Mr. Peter Tabuns: Sometimes talking points are based on facts. I'm just saying you memorized it well. You're pretty much verbatim with what you said the other day.

But I want to go back, then. The Hydro One transmission and distribution business: We can see less demand on the horizon not just for Hydro One, but all kinds of distribution companies, so we can expect that that portion of business will in fact be decreasing. I'm going to get into that later in my questioning because I want to talk to you about North American electricity markets.

But going back to this, the examples you used were of distribution companies that were going to take hold of or develop generation assets. Are you expecting that Hydro One will become a major generator in a province that has a surplus of electricity?

Hon. Bob Chiarelli: I think—well—

Ms. Sharon Geraghty: Again, I just want to caution about speculating about what Hydro One might do in the future.

Hon. Bob Chiarelli: Okay. Hydro One in many respects is a distribution company—

Mr. Peter Tabuns: And a transmission company.

Hon. Bob Chiarelli: —like many others. I've given you a range of examples in terms of Hydro Ottawa, in terms of Peterborough Utilities, in terms of PowerStream. We're getting involved in various things. I would be very surprised if Hydro One would not be seeking the same benefits as other players are in that particular field. And some of them are doing extremely well in that field.

Mr. Peter Tabuns: So I take from that that there's a potential for even more electricity generation development in Ontario in a market that's already—and I note that my colleague referred to this earlier—awash with power.

Hon. Bob Chiarelli: Well, let's be very clear here. When you predict your procurements, you're predicting five, six, seven years down the road. We are going to be going through a process of about 14 or 15 years of refurbishments. We will be taking nuclear units out of commission, and that power has to be replaced, okay?

Mr. Peter Tabuns: That's right.

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Hon. Bob Chiarelli: So the procurements that you're seeing now, including procurements for hydro dams in particular which we're seeing across the province, which are clean and affordable energy—you're going to see procurements which are being given now come on stream. Pickering—I don't know how many thousand megawatts; 2,000?

Mr. Serge Imbrogno: Three.

Hon. Bob Chiarelli: Three thousand megawatts at Pickering, and that's scheduled to be closing in 2020, so those megawatts have to be made up. You're going to have some nuclear units from refurbishment coming out of commission, as well, so the procurement that we're doing now is an anticipation of meeting that requirement down the road. The procurements we're doing now are

not going to be generating power tomorrow. It's three, four or five years down the road.

Mr. Peter Tabuns: I think you've answered my question.

When I look back at the payment-in-lieu system, when I look at the dedication of profits from OPG and Hydro One, we've had them flow into the Ontario Electricity Financial Corp. to pay off outstanding hydro debt. I know there are some interesting quirks in there, but I'll take that model for the moment. Have you done a calculation of how the sale of Hydro One and loss of part of that revenue stream will impact the reduction of the stranded debt?

Hon. Bob Chiarelli: Deputy?

Mr. Serge Imbrogno: The calculation of the residual stranded debt is done by the Ministry of Finance, so we don't do that calculation. The ministry would be doing that as part of its budget cycle.

Mr. Peter Tabuns: So it's an area that you have no knowledge of?

Mr. Serge Imbrogno: Well, not that specific question. I have general knowledge, but not of the specific question.

Mr. Peter Tabuns: Are you aware as to whether or not a study has been done to see if loss of that—

Mr. Serge Imbrogno: I'm not aware. It's only because I used to work at finance and I know the general ins and outs of the OEFC.

The Chair (Ms. Cheri DiNovo): Mr. Tabuns, you have just over five minutes left.

Mr. Peter Tabuns: Yes, thank you. I may come back to that.

I'm going to go on to another area for the moment: the Bruce Power reactors. What's the status of negotiations for refurbishment of those reactors?

Hon. Bob Chiarelli: Deputy?

Mr. Serge Imbrogno: There are discussions between the IESO and Bruce Power. We said in the long-term energy plan that we're moving forward with refurbishment of both Darlington and Bruce, so those commercial discussions are ongoing.

Mr. Peter Tabuns: My recollection was that the refurbishment at Bruce was starting fairly soon—in 2016, I think. Is that the case?

Mr. Serge Imbrogno: In the long-term energy plan, there is an indicative schedule. That schedule is always being optimized by the IESO, so they'll have to take into account where the Darlington refurb is, where the Bruce refurb is and kind of optimize that, so that schedule could shift.

Mr. Peter Tabuns: Has it shifted?

Mr. Serge Imbrogno: Again, it's part of the negotiation discussions between IESO and Bruce Power. From that discussion, they'll optimize the schedule.

Mr. Peter Tabuns: Do you know if we're close to settling an agreement with Bruce or not? Are we far away from it or is it very near?

Hon. Bob Chiarelli: It's very well advanced; extremely well advanced.

Mr. Peter Tabuns: Okay. Will the price for power that's negotiated with Bruce Power be brought to the Ontario Energy Board for review?

Hon. Bob Chiarelli: It's a power purchase agreement. As all power purchase agreements are, it's a negotiated price. The power purchase contracts have not been required to or have not gone to the Ontario Energy Board for determination.

Mr. Peter Tabuns: How much of our electricity supply is outside of the regulatory authority of the OEB?

Hon. Bob Chiarelli: Well, there are all the power purchase contracts for gas plants, renewables and some other types of generation, combined heat and power, etc. You can—

Mr. Serge Imbrogno: We can get the exact percentage, but all of OPG is regulated. Off the top of my head, maybe 50%.

Mr. Peter Tabuns: So 50% is not regulated and 50% is?

Mr. Serge Imbrogno: That's just a guess, off the top of my head, but it's really OPG—

Mr. Peter Tabuns: Deputy, I appreciate that. If you can get back to us—

Interruption.

Mr. Peter Tabuns: Oh, you may have a more precise answer in front of you right now.

Mr. Serge Imbrogno: Not at this point, no.

Mr. Peter Tabuns: Okay.

Mr. Serge Imbrogno: But I will get you the exact percentage.

Mr. Peter Tabuns: So if that could just be noted as an undertaking, to provide us with the precise percentage of power that's regulated and that which is not.

Hon. Bob Chiarelli: Incidentally, some of the non-regulated was NDP non-regulated power purchase contracts.

Mr. Peter Tabuns: Are you talking about the non-utility generators?

Interjection.

Mr. Peter Tabuns: Yes, you are. I remember my colleagues complaining bitterly about having them dumped on their shoulders by the Liberals, but I understand what you're saying, Minister.

Apparently, the Ministry of Energy has brought forward a regulatory amendment that seeks to smooth out the cost of the \$10-billion Darlington nuclear plant refurbishment. What disruption are you looking at that has caused you to bring forward a regulation to change the way that the OEB will consider rate applications from OPG?

Mr. Serge Imbrogno: The regulation would allow for smoothing of the capital costs of the project—OPG's rate recovery—so that rather than a lumpy cost recovery, it's smooth over a period of time.

Mr. Peter Tabuns: How lumpy would the cost recovery be?

Mr. Serge Imbrogno: Well, I just want to be clear: It doesn't take away OEB's ability to review for prudence, so we are not saying anything about OEB's ability to

look at costs and determine whether they're prudent or not. Once the OEB determines that costs would be prudent, it's saying how those costs are smoothed out so that the ratepayers don't see a large change.

Mr. Peter Tabuns: Now, you're aware that the OEB has rejected this approach to financing in the past, this construction-while-in-progress financing.

Mr. Serge Imbrogno: This isn't quite the same thing. This would be the OEB reviews. It's just a smoothing of the rate over time. We're not trying to get advanced approvals for construction work in progress; this is just smoothing the rate.

Mr. Peter Tabuns: How volatile would the rates be, if your regulation doesn't go forward?

Mr. Serge Imbrogno: That will all depend on when it goes to the OEB, what costs are approved, so it's hard to speculate what that change would be, but it's prudent just to have that regulation in place to smooth the rate.

Mr. Peter Tabuns: So you're moving forward with a regulatory change that reshapes the way that the OEB deals with rates based on something that you don't really know is going to have an impact or not?

Mr. Serge Imbrogno: It doesn't change the way that the OEB reviews for cost prudence. It would just allow the government to provide direction on smoothing of the rate. The cost will still be recovered by the rate base; it will just ensure smoother recovery.

The Chair (Ms. Cheri DiNovo): I'm afraid we're going to have to stop there and have a five-minute recess. We will meet back at 5:02.

The committee recessed from 1657 to 1702.

The Chair (Ms. Cheri DiNovo): I believe we are ready. It is the government's turn now. You have 20 minutes. Mr. Ballard.

Mr. Chris Ballard: Thank you very much, Chair.

Mr. Minister, the discussion about the deferred tax asset just made me think for a minute—and I'm thinking back to the last time we were together—it's in response to the question from the third party on Tuesday, regarding deferred tax liability. Your special counsel explained how this would impact Hydro One's balance sheet, but it would also be helpful if you could also explain how this deferred tax asset would impact the Trillium Trust.

Hon. Bob Chiarelli: First of all, just as a general comment, I think that most MPPs would know that the whole area of taxation, when it comes to the corporate sector—mergers and acquisitions—is extremely complex and takes a lot of analysis, and certainly all of that analysis has taken place with a significant number of consultants—legal etc.—in terms of putting the taxation issue in proper context, moving forward with this transaction. Certainly it's important that the public be very, very clear about what is happening in that regard as well.

So I'm not even going to try to get into the weeds on that particular issue myself. I have a few words to say afterwards, but I want to pass this on to the corporate tax expert that we have in the room with us.

Ms. Sharon Geraghty: Thank you very much, Minister.

I think it might be worth recapping just how the deferred tax balance account works because it is, as the minister says, complex.

I think the best place to start—because I've been mentioning many times that I want to make sure that we stay grounded in the prospectus, so I do think it's useful for me to start with what's in the prospectus on this. In the prospectus, you'll see that there are pro forma financial statements. Those are financial statements dated as of December 31, 2014. Their purpose is to try and show investors the financial statements of the company, adjusted for the transaction.

One of the key adjustments in those pro forma financial statements in the prospectus relates to this deferred tax balance. It has, really, two impacts that it's adjusting for. As I mentioned yesterday, when Hydro One leaves the tax-exempt regime, that has two impacts on it. There's an immediate requirement for it to pay departure tax—we talked about that at length yesterday. The other thing that happens, which we also discussed yesterday, is that this revaluation of assets creates future tax savings for the company.

One of the key adjustments in that pro forma financial statement, dated as of December 31, 2014, is to try and illustrate what that does. What the accountants do is that they see that there will be these tax savings from the revaluation of the assets. What happens on the revaluation of the assets is that the fixed assets are moved to their current value and there's a tax account, which is called an eligible capital expenditure, created. That's what generates the potential future tax savings.

The accountants look at that, and what they've done in the pro forma financial statements is they've taken the balance of the deferred tax account—actually, the balance, as at December 31, 2014, was a deferred tax liability. They eliminate that deferred tax liability, which is in the pro forma financial statements—about \$1.355 billion—and, actually having reversed that amount, they also add a deferred tax asset, which they estimate, as of that date, to be \$1.245 billion. When you look at that overall adjustment and you do that math—\$1.355 billion plus \$1.245 billion—that adds up to \$2.6 billion. That's the adjustment.

I do want to say, because we talked so much about \$2.6 billion yesterday, that there is a coincidence of math happening here. It happens that the immediate departure tax that I talked about yesterday is estimated to be \$2.6 billion. It's a different \$2.6 billion; it's a coincidence of math that they're the same, even though they're both related to the revaluation of the assets.

In any event, we have this adjustment that I mentioned of \$2.6 billion, which is a positive adjustment, in the pro forma financial statements, estimated as of December 31, 2014. Immediately after closing, the province would own, if they do this tranche of 15%, 85% of the company. In consolidating the province's financial statements, they would take 85% of that \$2.6 billion into the province's

statement. That 85% of \$2.6 billion is, I know, about \$2.2 billion.

Of course, the actual positive adjustment will depend on the actual results of Hydro One, which, I will say again, we're not going to speculate about. That gives you an order-of-magnitude idea of what happens. That's a positive adjustment in the fiscal results that the province should enjoy, estimated as of December 31, based on the pro forma financial statements. I hope that's helpful.

Hon. Bob Chiarelli: I think it's helpful and I just want to comment on it briefly, myself. I just want to bring us back to basics--why we're here, in any case.

There's a very large, I think, agreed-to consensus across Canada, including Ontario, including eastern Ontario, including the riding of Pembroke–Nipissing–Renfrew, that there's a significant infrastructure deficit. I think that the member from Pembroke–Nipissing–Renfrew would define Highway 17 widening as an infrastructure deficit. The province has been working, in increments, to get that as far as Pembroke and maybe beyond.

We're making gallant efforts; we've expended a lot of money doing it. But it's not in a timely manner and it continues the infrastructure deficit. We have a Premier who has determined, with a 10-year infrastructure program of \$130 billion, to make a dent in that infrastructure deficit. Part of that is the proceeds from the broadening of ownership of Hydro One.

1710

As you've just heard, the Trillium Trust provides for the dedication of net proceeds from the sale of qualifying provincial assets to fund infrastructure projects that would create jobs and strengthen the economy to build Ontario up. The province remains committed to allocating all net revenue gains from broadening the ownership of Hydro One to the Trillium Trust. The province will move forward with amendments to the Trillium Trust Act, 2014, that would, if passed, name the province's shares in Hydro One as a qualifying asset and ensure that all fiscal benefits from the estimated gain would be directed to the Trillium Trust.

These amendments to the Trillium Trust Act, 2014, would allow all the fiscal benefits to be used for investments in transit, transportation and other priority infrastructure projects like the Highway 17 widening and that type of asset which exists across Ontario and, in fact, across Canada. As I said, we're determined to make a dent in those. These amendments will ensure that the province remains on track to deliver approximately \$4 billion to the Trillium Trust and \$5 billion towards debt repayment, as outlined in our 2015 budget.

I just wanted to indicate that there have been a number of political statements—directions—in this regard over the course of the last short period of time. The recent leadership candidate for the PCs, for example, the member from Whitby–Oshawa, in her leadership campaign was very, very clear. She was clear in that she said that she would look at repurposing assets. As well, she

mentioned the LCBO and the Beer Store. She mentioned the energy sectors—OPG and Hydro One.

We have the current leader, who I think still has adopted—because no one has disavowed it—the white paper that Tim Hudak had adopted, which stated quite clearly that they would look at broadening ownership of Ontario Power Generation and Hydro One, as well as looking at other assets, and that the public would remain—it was part of the white paper—protected with the Ontario Energy Board in terms of regulating rates.

So the concept is not new upon which we're moving forward, and I think that with the initiative that we have, the work we've done on the eve of the IPO becoming actualized, if I can use that term, we're heading in the right direction. So that's the answer to the question.

Mr. Chris Ballard: Thank you.

The Chair (Ms. Cheri DiNovo): Mr. Delaney.

Mr. Bob Delaney: Minister, Ontario is looking into clean energy imports from a number of different locations. Just recently, we as a province announced—in fact, you did—our agreement with the province of Quebec which was possible because we were dealing from a position of strength, and Hydro-Québec doesn't negotiate from a position of being charitable. They want to make sure that they do their best for their jurisdiction and, in this case, we were able to achieve a very, very strong mutually beneficial agreement with Quebec to bring in power at a time that we need it and to export surplus power at a time that Quebec needed it.

Mr. John Yakabuski: Five hundred megawatts—it's a pittance.

Mr. Bob Delaney: Just before I go into it, just to put things into some perspective, I've had the opportunity recently to travel in the United States and see just what it is that the Americans are doing. In fact, some of them have stated pretty candidly that they're trying to catch up to Ontario. For example, just this spring in the United States, the Americans issued their first of what they call a Quadrennial Energy Review. It was in April of this year, 2015, and its scope and its objectives are very, very similar to our own long-term energy plan.

When one looks at the Americans, their jurisdictions have similar structures to us here, with different names, but they serve much the same function as the OEB and the IESO. So for example, just recently the Electric Power Research Institute in the States talked about their move toward integration. They have talked a lot about conservation first. America is becoming very aggressive with smart meters.

Just as IESO daily monitors weather and seasonal factors, they sit down first thing in the morning and they talk about conditions and outages and other issues in other areas to which Ontario interconnects. We talk about the trends in the season; so too do they do that in the States, which suggests that where we have gone beyond talking about smart meters and actually implemented them—similar jurisdictions in the States that are years behind us would include, for example, Florida Power and Light, Baltimore Gas and Electric, Central Maine Power,

the Iowa Association of Municipal Utilities and many more.

Where the long-term energy plan has involved consumer engagement in the States, utilities such as Commonwealth Edison, FirstEnergy, Sacramento Municipal Utility District, Kansas City Power and Light and Pepco are playing catch-up to Ontario.

One of the things that we are doing to stay ahead of that curve is—

The Chair (Ms. Cheri DiNovo): Mr. Delaney, just to let you know, you have five minutes left.

Mr. Bob Delaney: Thank you.

We've talked about the possibility of importing clean energy from Newfoundland and Labrador.

So perhaps you could inform the committee what's being done in regard to the possibility of importing electricity from Newfoundland and Labrador.

Hon. Bob Chiarelli: I'll try to squeeze it into three or four minutes.

First of all, the context of it is that the Premiers from across Canada have a goal and an aspiration of creating a national energy plan. They've taken some significant steps towards that, and part of that is the aspiration of having a Canada-wide grid. Steps are being taken—the first part of that, of course, was the agreement with Quebec, and to my friend from Renfrew–Pembroke–Nipissing, yes, the actual agreement in place is for 500 megawatts. We also have another MOU in which we're trying to negotiate an additional 1,000 megawatts that would be available to us during the 12 or 13 or 14 years of refurbishment. That's on the basis that they would have to supply us that electricity at less than what our current costs are, and we're still working towards that.

Ontario and Newfoundland have also passed another memorandum of understanding to see whether or not it might be possible to bring Newfoundland Power to Ontario. That's becoming more realistic because Emera is in the process of building a maritime link, which is a transmission link, which will bring Newfoundland Power into the northeastern United States, which includes New England, New York, Boston and New York City. It is already in the process of marketing that power, which will be available in three or four or five years to that geographic area.

What is being explored with Ontario is the possibility that if that power is being transmitted to New York state—we have an intertie with New York state—it may very well be possible for that link.

Again, it's not a significant amount. We're talking about 1,000 megawatts that might be available and, again, it's only on the basis—obviously it will be clean because it's electricity, but it also has to be below our cost.

1720

Deputy, you have a minute or two. Do you want to add to that?

Mr. Serge Imbrogno: Yes. I'll just start, and then if I don't get through the minute or so that's left, I'll ask Steen Hume to come up and talk about it a bit.

Similar to Quebec, my deputy colleague from Newfoundland and Labrador and I have set up a working group. Representatives from the IESO and Nalcor are on that working group, and we also have ministry staff. Steen Hume, our ADM, is the lead from the ministry who has been participating in those discussions. As the minister said, we have signed an MOU where we are going to be exploring opportunities to further enhance our potential trade with Newfoundland and Labrador.

The working group, similar to Quebec, also deals with other issues in terms of remote communities. All provinces across Canada have issues with remote communities, so we're also working with Newfoundland and Labrador on a pan-Canadian strategy to address that issue as well.

Let's bring Steen up, and he can start to give you a bit more detail on what is in the negotiations to date.

Hon. Bob Chiarelli: You have 50 seconds. Talk fast.

Mr. Steen Hume: Good afternoon. My name is Steen Hume. I'm the assistant deputy minister of the energy supply policy division.

Just to provide a little bit of additional content with respect to the working group that I'm participating in with my colleagues at IESO as well as Newfoundland and Nalcor: One of the areas that we're going to spend a fair amount of time on is looking at what Ontario's supply requirements are—understanding what is the quantity, the seasonality and the desirability of certain supply attributes from a short-, medium- and long-term perspective. Conversely, we're going to have Newfoundland explore—

The Chair (Ms. Cheri DiNovo): I'm sorry. Your time is up. Thank you very much, assistant deputy minister.

We'll move on now to the official opposition. You have 20 minutes.

Mr. John Yakabuski: Thank you very much, Chair. If I had a little more time, I'd give some of it to the deputy, because to drag him up for that little bit of time—I don't understand that.

I'm going to ask a question directly one more time, and then I'm going to give the rest of the time to my colleague Mr. Smith.

We're back on these contracts, Deputy. I think you were the last one to comment. I'm not asking for the name of the generator. I'm not asking for anything that should be protected by contractual law or anything like that. The minister said they're all treated the same, so give us the picture. Would you provide to the committee in writing, in a form that indicates what the contracts are, so that we know how much is being paid when the generators aren't producing power or when they put the blades in neutral or whatever and we're not getting anything out of the wind that's going by—what kind of deals you've made, so the people of Ontario have an understanding of whether or not you've made a good deal?

If you want to talk about transparency, that's exactly what transparency is about: not hiding things from the public, but giving the people some kind of a disclosure as

to what kind of deals you've entered into on their behalf, what they're paying for. That's what I'm asking for. Will you provide those details to the committee so that we can make our own judgment and the people can have that information? Can you do that?

Mr. Serge Imbrogno: The contracts between the IESO and the generators are commercial contracts. They're not disclosed for commercial reasons. So I can't provide you with contracts that are commercial. If—

Mr. John Yakabuski: I don't want the details of any single contract.

Mr. Serge Imbrogno: If they are public, the IESO would have posted them on their website. To the extent that they contain confidential information, they're not posted and they're not available because they're commercial. I don't think you would expect us to put forward commercial contracts.

Mr. John Yakabuski: I would expect the public to know what they're paying when we're not getting any power. When we're paying something for nothing, the public, in my opinion, has a right to know that.

Mr. Serge Imbrogno: If the IESO provides full detail—

Mr. John Yakabuski: I shouldn't be directing that to you, Deputy; I should be directing it to the minister.

That's just unacceptable, that you would pay for something, get nothing and then not disclose—in general, not what you paid to generator XYZ over a prescribed period of time or whatever but what we are generally paying for that, because the public needs to know if they're buying electricity or if they're buying nothing.

Mr. Serge Imbrogno: The IESO fully discloses all of the costs through the global adjustment. They do it by wind; they do it by solar; they do it by gas; they do it by other sources. So that's all publicly available.

Mr. John Yakabuski: Let it be known that the minister refuses to provide that record. Thank you very much. I'll pass on to Mr. Smith.

Mr. Bob Delaney: Chair, just on a point of order.

Mr. John Yakabuski: There is no point of order.

Mr. Bob Delaney: The member can find that at ieso.ca.

The Chair (Ms. Cheri DiNovo): That's not a point of order. We move on to Mr. Smith.

Mr. Todd Smith: Thank you. Minister, would you say that—and going back to the Hydro One sale here now—it's more cost-effective to service a high-density area than it is a low-density area in Ontario?

Hon. Bob Chiarelli: Deputy?

Mr. Serge Imbrogno: In terms of transmission, there's a single cost across all of Ontario. In terms of distribution, the costs of distribution vary if you're in a rural area. Distribution costs are larger, and those are reflected in rates. If you're in an urban area, distribution costs tend to be less because it costs less to service those customers.

There is a program called the Rural or Remote—

Mr. Todd Smith: What is it called? Sorry?

Mr. Todd Smith: The RRRP program attempts to try and equalize some of the differences between urban and rural. That's about a \$127-million program that's currently in place and used to try and reduce some distribution rates for rural customers.

Mr. Todd Smith: So when it comes to your consolidation strategy—and we've seen some of those deals taking place, like the Brampton Hydro deal, but there are others. You're encouraging consolidation across the province, but it's most likely—would you not say?—that those consolidations will only occur in high- or maybe even some medium-density areas. Why would low-density areas be considered as attractive in any kind of consolidation?

Hon. Bob Chiarelli: Consolidation can also occur among rural areas. That's not necessarily limited to urban areas. Some of the consolidations, I believe, have included rural areas. I can tell you that we have a pretty good dialogue and working relationship with our stakeholders, including municipal LDCs. There has been a lot of discussion among them. You've probably heard the chatter yourself about rural and/or suburban LDCs musing about either selling their utility or selling part of the utility, getting the money and using it for infrastructure while using that as an endowment from which they can get revenue to provide infrastructure. There have been some consolidations in the rural areas, and one of the things that they continually asked for was some relief on the tax—the departure tax, and there's another tax that applies to them—because they felt that that put them in a situation where it wasn't that cost-effective for them to amalgamate.

Since we've amended the tax legislation for a period of three years, we know that the amount of discussions that have been going across the whole LDC sector, including rural, suburban and urban, is very, very significant and that there are serious discussions which are ensuing because of that because they see that as an opportunity.

I don't know, Deputy, if you want to add to that.

1730

Mr. Serge Imbrogno: I think the government has said they are looking for voluntary consolidation. That doesn't mean you have to sell your MEU. You can merge your MEU. You can share back office functions. I think there are opportunities for all LDCs to find ways to reduce costs. They don't necessarily have to sell their MEU to receive that.

I think in a lot of discussions we have with some municipalities, they want to keep their MEU. They don't want to sell, but they do want to find efficiencies. I think there's enough flexibility to achieve efficiencies in a variety of ways.

Mr. Todd Smith: But if we're hearing about proposed consolidations and expansions of certain LDCs, most of what I'm hearing includes the more built-up areas, the suburban areas, areas where there's some high- or medium-density areas that they would be interested in.

They're not necessarily interested in acquiring low-density areas—

Hon. Bob Chiarelli: It's across the province. There's a lot of interest right now in moving forward. I agree with you that there are some, particularly rural communities, that have a particular connection to the utility. They want to preserve it and they want to keep it. That dynamic is there. But there are also rural LDCs who are looking at joining each other or they have working arrangements where they share administrative costs or they're looking to sell a portion of their LDC. There are all kinds of permutations and combinations of that taking place. The rural LDCs are paying a lot of attention to what's happening now.

Mr. Serge Imbrogno: Can I just add to that? I think the changes that the government introduced in terms of eliminating the transfer tax for MEUs under 30,000 has introduced more buyers. I think previous to that there may have been limited buyers, so a municipality may not have had a lot of opportunities to have different buyers, but with that change it introduces more players so there's more of an opportunity.

Hon. Bob Chiarelli: Just to be clear: for utilities that have under 30,000 customers, the tax is completely eliminated. For the others, it's significantly reduced.

Mr. Todd Smith: So do rural Hydro One customers have anything to fear right now about their electricity rates rising if the more profitable sections of Hydro One become part of some kind of a consolidation that occurs around a more urban area? Is it not going to cost more for Hydro One to service those rural customers, driving up electricity prices?

Hon. Bob Chiarelli: Any rural customer is a customer of a distribution company. Okay? So there are rural LDCs who—nobody can force them to amalgamate. We're not forcing them to amalgamate. Nobody can come and beat them over the head and apply any leverage to them in any way, shape or form that would force them or cause them to want to sell. They're 100% in control of their own destiny in terms of whether they want to stay a sole LDC with the present size and configuration. They have an absolute right to do that. Nobody can do otherwise. I can tell you that there will be people knocking on their doors, not bribing them as you suggest for renewables—

Mr. Todd Smith: No, because we know that's going on with renewables.

Hon. Bob Chiarelli: They will just say, "You know what? We're prepared to buy it. How can you turn this deal down?" You know what? They can turn it down.

Mr. Serge Imbrogno: I would just add to that that for any of these mergers you would have to get the approval of the OEB. They would apply their "no harm" test. They would ensure, if there's a transaction, that the rural customer in that LDC wouldn't be made any worse off—likely be made better off.

Mr. Todd Smith: But they're responsible, though, to act in the best interests of covering the costs of the company, and if it's costing more money to service those

customers, then the price will increase for Hydro One customers.

Mr. Serge Imbrogno: If that's the result of a merger, then the OEB wouldn't allow that to happen. The OEB is there to ensure that doesn't happen, and that's why you have to go to the OEB to get approval for these mergers.

Mr. Todd Smith: But the cost to service those customers is going to increase. Right? The cost to service those customers is going to increase for Hydro One, and 95% or so, or the vast majority of rural customers, are serviced by Hydro One. Correct?

Hon. Bob Chiarelli: Well, they're going to be subject to the Ontario Energy Board. The new Hydro One has to go to the Ontario Energy Board and have their costs approved.

Mr. Todd Smith: No, I realize that, but it's—

Hon. Bob Chiarelli: Are you talking about rural customers of Hydro One or non-Hydro One LDCs?

Mr. Todd Smith: I'm talking about rural Hydro One customers.

Hon. Bob Chiarelli: So what's the question? Will the rates go up?

Mr. Todd Smith: Let's move on to another subject.

The valuation of the first sell-off of shares at Hydro One is \$9 billion. That's what Ed Clark has always insisted: that they are going to receive \$9 billion. I mean, it's not secret. I can see legal counsel is shuddering, but it's been out there that we're looking at receiving \$9 billion from the sale of Hydro One, right? Sorry, not from the initial sale, from the entire—sorry, sorry, sorry. That's why you were moving; that's why you were fidgeting.

Mr. John Yakabuski: The 60% sale.

Mr. Todd Smith: Right, the 60% sale is \$9 billion, correct?

Ms. Sharon Geraghty: The only thing I'll say again—you correctly anticipated the reason I was first leaning forward, and so I'll just lean forward again and caution the minister and deputy that there was a statement by Ed Clark at the time, and I'm not suggesting that you can't answer the question, but be careful, as I've said before, about speculating about the value that the province will obtain in the upcoming tranche or in any future tranches.

Hon. Bob Chiarelli: I did, in my answer to a previous question, the first or I think the second question that we asked from our side—I'll read it to you again without my political premise. It took some time. "As you've just heard"—and I was referring to the remarks of our counsel—"the Trillium Trust provides for the dedication of net proceeds from the sale of qualifying provincial assets"—

The Chair (Ms. Cheri DiNovo): Just a note, Minister: about five minutes left.

Hon. Bob Chiarelli: Sorry?

The Chair (Ms. Cheri DiNovo): You have five minutes left for the—

Hon. Bob Chiarelli: Okay. This will take about a minute and a half here.

“Trillium Trust provides for the dedication of net proceeds from the sale of qualifying provincial assets to fund infrastructure projects that would create jobs”—blah, blah, blah. “The province remains committed to allocating all net revenue gains from broadening the ownership of Hydro One to the Trillium Trust. The province will move forward with amendments to the Trillium Trust Act, 2014, that would, if passed, name the province’s shares in Hydro One as a qualifying asset and ensure that all fiscal benefits from the estimated gain would be directed to the Trillium Trust.”

The next couple of sentences are basically answering your question: “These amendments to the Trillium Trust Act, 2014, would allow all the fiscal benefits to be used for investments in transit, transportation and other priority infrastructure projects.... These amendments will ensure that the province remains on track to deliver approximately \$4 billion to the Trillium Trust and \$5 billion towards debt repayment, as outlined in our 2015 budget.”

Mr. Todd Smith: It says the number one way that that could be off, the money that you’re hoping to achieve from the partial sale of Hydro One, is if the market doesn’t value the shares as high as Mr. Clark thinks or believes, perhaps because of a lull in the markets or anything like that. Have you considered potentially putting off the sale to try to ensure that the markets are ready for this and that you are going to get the maximum from the sale of Hydro One?

Hon. Bob Chiarelli: There are a significant number of advisers—well-experienced, knowledgeable people in the stock market and investments, bankers etc.—who have participated in an analysis. Our conclusion on the basis of this advice is that we’re on track to deliver approximately \$4 billion to the Trillium Trust and \$5 billion to our debt repayments, given the current market situation.

Mr. Todd Smith: So there’s no way you’ll delay the sale?

Hon. Bob Chiarelli: Given the current market situation, we’re proceeding, and the expectation is that \$4 billion will be available for the Trillium Trust and \$5 billion towards debt repayments.

1740

Mr. Todd Smith: So there’s no way that the government would consider holding off on this sale, considering what the public opinion is? I know you’re hearing it and I know your colleagues are hearing it: that there’s wide-spread opposition to this sale. There’s no way that you would suspend selling off the first 15% of Hydro One?

Hon. Bob Chiarelli: We’re on track with our plan and we’re going to stay on our plan.

Mr. Todd Smith: And nothing’s going to shake you from that?

Hon. Bob Chiarelli: Based on what I said, you can draw your own conclusions.

Mr. Todd Smith: Well, I think a lot of people are worried that you’re not going to get the revenue or the funds that you’re expecting to get from this sale. The most logical thing to do would be to slow this down

instead of speeding up, heading into this IPO and making a decision that is irreversible. Once Hydro One is sold, Hydro One is sold, and you can’t backtrack after that’s over. Do you not feel that it would be important to slow this down and to consider this more fully?

Hon. Bob Chiarelli: How much time do I have?

The Chair (Ms. Cheri DiNovo): About 50 seconds—40 seconds.

Hon. Bob Chiarelli: I can’t even clear my throat in that time. No, we’re on track to proceed. We understand that there are people and municipalities that have expressed concern about it. Certainly my belief is that they’ve been led to believe—the primary cause for that direction, that political feeling is that, if I can use a quote, “Hydro rates are going to skyrocket”—

The Chair (Ms. Cheri DiNovo): I’m afraid your time is up, Minister.

Hon. Bob Chiarelli: —and that’s just not going to happen with the OEB.

The Chair (Ms. Cheri DiNovo): Thank you. We now move on to the third party. Mr. Tabuns, you have the remaining time.

Mr. Peter Tabuns: Thank you, Chair. I’d like to go back to where I had left off. Minister, you may direct this to your deputy or you may take this question on your own. You’re proposing to change the way the Ontario Energy Board regulates rates for OPG’s nuclear refurbishment at Darlington. I’ve asked because we’ve been told it’s being done to defend against volatility. What kind of volatility are we talking about?

Mr. Serge Imbrogno: As OPG refurbishes, it’ll have less power in the market. The OPG rate would need to recover its costs. What we’re saying is, “You do that. We want you to smooth it out.” So we don’t want a big lumpy increase either at the front or the back end. We prefer—

Mr. Peter Tabuns: And what sort of increases are we talking about that you’re worried about?

Hon. Bob Chiarelli: It’s not a question of increases. It’s a question of when the money and the capital is spent. Let me give you a hypothetical: You could be at a stage of refurbishment when there is more capital going into the refurbishment, and eight or nine months later, there could be a part of the construction, which could be inspections or whatever else, that doesn’t require a significant amount of capital to go in.

We’re saying that the refurbishment period is 12, 13 or 14 years, the capital spending is spiking and that it’s cutting down, etc. Rather than having spiking up and down, etc., it’s simply a request to say, “Look, it’s basically one contract to do these series of things. Don’t let them spike up and down because of the construction fees that are happening.” I don’t know if that captures it.

Mr. Serge Imbrogno: No, it does. Just to be clear, this is the OPG rate; it’s not the overall rate for consumers. OPG is only a small portion of it.

Mr. Peter Tabuns: It’s a big portion of it.

Mr. Serge Imbrogno: For Darlington, it’s just the nuclear rate that the OEB would approve. There’s no

change in the OEB oversight prudence review of all the costs. So it's only after—

Mr. Peter Tabuns: No, I understand that, but it's a different way of determining the rates. Prudence is always something that has to be examined by a regulator, correct?

Mr. Serge Imbrogno: Correct. Yes.

Mr. Peter Tabuns: That isn't going to change, but the cash flow and how that's going to be charged to customers is going to change with what you're proposing. Is that not true?

Mr. Serge Imbrogno: We are proposing a smooth rate recovery as opposed to an unpredictable, volatile rate recovery.

Mr. Peter Tabuns: What's the scale of the volatility that people may be exposed to?

Mr. Serge Imbrogno: After the OPG goes to the regulator, after they've approved their costs, then that would be determined at the time. So it's hard for us to give you—

Mr. Peter Tabuns: Well, just going through the minister: I am assuming you've done some sort of projections on the kind of volatility you're facing before you bring forward a regulation. It wasn't just, it was a slow day at the ministry and people decided to change the regulation because it would look better. You did an economic analysis, did you not?

Hon. Bob Chiarelli: There wasn't an economic analysis done. There was just a construction schedule analysis. It's a very simple principle, and that is, the costs are going up and down depending on the phase of construction. We felt it was reasonable, fair and just and the right thing to do, rather than have it subject to intermittent spikes etc., that it would be best to even it out. It's as simple as that, and—

Mr. Peter Tabuns: How big would those spikes be? Do you have a range? You're talking about volatility.

Hon. Bob Chiarelli: We're not talking about volatility. We're talking about something that is known that's going to happen: that they're going to be spending capital more and less depending on the time and the project etc.—and better to smooth it out.

Mr. Peter Tabuns: A Ministry of Energy spokesperson was quoted, and Queen's Park reporter, as saying—at looking at how to “reduce volatility in OPG's regulated nuclear rates.” I'm assuming that—

Hon. Bob Chiarelli: Spiking.

Mr. Peter Tabuns: So what's a spike? A 1% increase, a 2% increase, a 20% increase?

Hon. Bob Chiarelli: I can't recall the number right now, quite frankly.

Mr. Peter Tabuns: I'm sure someone did the number.

Mr. Serge Imbrogno: I think the number will be once the OEB reviews it. I think whatever that number will be, it will be smoothed out over the period of time.

Mr. Peter Tabuns: Minister, you're bringing forward a regulatory change. You're telling the OEB how to do its work. You're going to change the way rates are set—

Hon. Bob Chiarelli: Sorry; we're asking. We're not telling them. They can say no.

Mr. Peter Tabuns: No. This is a regulatory change, a regulatory amendment.

Hon. Bob Chiarelli: If they think it's reasonable, they will say yes. If they think it's not reasonable, they will say no. We're not telling the OEB what to do.

Mr. Peter Tabuns: Just a second. You write the regulation that the OEB functions within. Are you telling me the OEB exists independently, politically, from you and you can't set the framework they operate within?

Hon. Bob Chiarelli: In their setting of rates, they're independent of us.

Mr. Peter Tabuns: Then why are you bringing forward a regulation? If they're independent, why don't they just do it on their own? Why are you bringing forward a regulatory change?

Mr. Serge Imbrogno: We're not discouraging the OEB from deciding what costs are prudent and what will be passed on to the rate base and what won't be passed on to the rate base. The only thing the regulation does—and we will consult with the OEB; we just don't make a regulation without consulting with all the affected parties—is, what is an appropriate smoothing mechanism? But the costs are still recovered, and those are costs only approved by the OEB. So the fundamental function of the OEB remains.

Mr. Peter Tabuns: My understanding is that the OEB has rejected construction work-in-progress methodology in the past. Why are you changing the situation now?

Hon. Bob Chiarelli: They have the option to do it or not do it. It's a request; full stop.

Mr. Peter Tabuns: A change in regulation is a request in Ontario? Seriously, when you pass a regulation in cabinet, I consider that more than a request.

Mr. Serge Imbrogno: I think what the minister is saying is that the regulation has not been passed. We have said we are moving forward with a regulation. How that regulation finally unfolds will be a decision of the government.

Mr. Peter Tabuns: So are you considering a regulation telling the OEB it has to pass on the tax savings that the new Hydro One will have; that it'll have to pass that on to ratepayers?

Mr. Serge Imbrogno: We're not speculating on that.

Mr. Peter Tabuns: Well, it seems that you're willing to pass regulations changing the rate-setting process and directing the regulator as to the framework they're going to operate within. Why not offer a break to the ratepayers who are going to be dealing with Hydro One?

Mr. Serge Imbrogno: Again, we're not directing the OEB in any way in terms of its review of costs, its prudence review. This is just an opportunity to smooth out rates over a period of time.

1750

Mr. Peter Tabuns: I'll go to another question. I may come back to you on that one.

We've talked for a while about the refurbishment at Darlington, and you, Minister, have talked about off-

ramps. If things are not going well, if things are running way behind schedule or way over budget, you've said that we would have off-ramps that would allow us to stop and move on to something else.

Can you tell us what those off-ramps are? How do they function? How are they a credible deterrent to a management that's not managing properly?

Hon. Bob Chiarelli: I'll ask the deputy to try to explain in a few short minutes what is probably contained in about 75 pages of a very complex agreement. But we'll take a run at it.

Mr. Serge Imbrogno: First, Mr. Tabuns, the OPG is working to ensure that it's going to deliver this project on time and on budget.

Mr. Peter Tabuns: I've heard that with everyone.

Mr. Serge Imbrogno: It is contracting with suppliers, vendors and service agents to ensure that it has appropriate risk mitigation in passing on the risk to the third party. The way we want to structure the refurbishment is as much as we can to unlock the units so that we would start the first unit, and before we start the second unit, we would have to be comfortable that they're proceeding on time and on budget. That gives us flexibility. In the worst case, if something isn't going according to plan, that gives the government the opportunity to look at different options.

Mr. Peter Tabuns: So theoretically, hypothetically, let's say that with reactor one, the construction goes forward; we find that costs are zooming 20% or 30% more than was expected. The calendar is going by at an incredible rate. It's not coming in. What are the triggers that will say to you, "We're not going to proceed with refurbishment of the other three reactors"?

Mr. Serge Imbrogno: I wouldn't want to speculate on what the decision point would be at the time, other than that the government of the day would have the ability to take that information and make a decision.

Mr. Peter Tabuns: Has OPG been made aware of the standards to which it will be held? Generally, when you say to someone, "We're going to stop this contract if you aren't performing," they don't have to guess. They can see—

Hon. Bob Chiarelli: If, in our judgment—

Mr. Peter Tabuns: If, in your judgment—

Hon. Bob Chiarelli: Cabinet. If it's the cabinet's judgment that they're over budget and not on time, we are going to exercise our discretion. We have the opportunity to exercise our discretion—because we will not have started any more units—to not proceed. The most serious consideration and most likely consideration would be a consideration not to proceed. It's our policy now that if they're over budget and over time, the refurbishment would not proceed.

There may be circumstances under which, depending on the extent of it, with some changes, it could be accommodated, but we will have the option to make that decision.

Mr. Peter Tabuns: If you do that—and I'm not trying to discourage you. I think you need to have very

substantial mechanisms to enforce price discipline. So I don't think this is a bad thing for you to do, but what I'm trying to sort out is the credibility of your discipline.

You've said to me that if this is going off track, if it's over budget, behind schedule, if your cabinet determines that this is not a retrievable situation, you won't proceed with the refurbishments of the other reactors. Is that correct?

Hon. Bob Chiarelli: It's our policy at this point.

Mr. Peter Tabuns: Okay.

The Chair (Ms. Cheri DiNovo): Mr. Tabuns, you have about five minutes left.

Mr. Peter Tabuns: I thought we were on good terms, Chair.

Anyway, if that's the case, as you're well aware, you're expecting the power from those refurbished reactors to come back into the system. We may well be facing, then, a deficit of power. What is your plan to ensure that we're not forced into a situation where we have to say, "Look, we can't afford to abandon this refurbishment. We don't have the power. We've got to fill the gap. We've got to proceed"? What's your backup?

Hon. Bob Chiarelli: We have an overriding principle, which is written in black and white in our long-term energy plan, of plan flexibility. There is actually a graph that shows the time frame, where this type of issue could come up and what the flexible alternatives are.

Maybe you could go into some—

Mr. Peter Tabuns: I would appreciate it if you would go into what the alternatives are because, I'll just say again, if someone is running that project, they like receiving the income they're receiving. They turn to you and say, "You don't have the power to replace what's going to be lost." You're stuck. We're stuck.

Mr. Serge Imbrogno: We work with the IESO to make sure that we have plans in place. So it's not that the other units would stop running; they would continue to run. We have potential for—for example, OPG has different facilities that you could convert. As an example, we have Lambton.

The IESO would have contingency plans that they would put in place. They would have time to make those adjustments. We're in discussions with Quebec; we're in discussions with Newfoundland. We would continue to have options.

I think part of the IESO planning is—and they do it all the time—what-if scenarios: "If this doesn't come back, what are our contingency plans?" That would be in place to make sure, as you say, that we do have a credible option to move forward with other plans.

Mr. Peter Tabuns: So you're talking about potentially buying power from Quebec, and from the intertie report, I gather that assumes a commitment to investing in greater transmission capacity. Is that correct?

Hon. Bob Chiarelli: No, no. The least likely option—and we're operating on the basis that we will not be building new infrastructure. There are probably 1,000 megawatts additional or maybe up to 1,500; that would be part of a solution. It wouldn't be the solution.

Mr. Peter Tabuns: Okay. And the other options would be repowering Lambton and Nanticoke?

Hon. Bob Chiarelli: Not in coal. It would be a conversion. We've been successful in converting Atikokan and Thunder Bay Generating Stations to biomass, which is very clean; it's clean energy. We have the option to do that.

I don't know whether they have any other sites—

Mr. Serge Imbrogno: The government has invested a lot in natural gas generation. At this point, it's being used at a low capacity. I know there are greenhouse gas implications, but the IESO has the potential to get more output out of the natural gas facilities that we have in place now as a means to bridge to a different solution.

The system has a lot of flexibility and capacity built into it that gives you time to manage until you find a different solution.

Mr. Peter Tabuns: So you could assure Ontarians that, should it come to pass that refurbishment was out of control and had to be shut down, you have a credible plan for moving us to other sources of energy?

Hon. Bob Chiarelli: The IESO is intimately involved in all of these issues. Their primary function is reliability, and they are planning. You might be aware of the fact that the IESO is moving to very significant change in how we're going to do our procurement. They're already

taking steps towards it. There's a bit of work, and it will be over a period of time—two, three, four, five years—and that is creating what they call a capacity market.

Now, if we do procurement, it could be for renewable, it could be for water or it could be for whatever. Where they're moving now—and I think they're doing some pilot projects on it. Other jurisdictions have already implemented it, so we're not—

Mr. Peter Tabuns: No, I'm familiar with capacity markets and what happened in the UK.

Hon. Bob Chiarelli: So what it basically says is if they need 500 megawatts or 1,000 megawatts, they put out an RFP that will simply say, "We need 1,000 megawatts of power by such and such a date," clean energy, and you come in and give us a proposal on how you're going to do it. So somebody can come in and do a proposal that says it's going to be by renewables; somebody can come in and say it's going to be by gas; someone could do it by conservation even—

The Chair (Ms. Cheri DiNovo): I'm afraid the time is up. Thank you, Minister.

We will adjourn. We're back Tuesday morning on the 20th. Just a reminder to everyone. We have six hours and 26 minutes remaining for the Ministry of Energy. Thank you.

The committee adjourned at 1800.

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Clerk / Greffier

Mr. Christopher Tyrell

Staff / Personnel

Mr. Jeff Parker, research officer,
Research Services