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Tuesday 30 October 2001

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Mardi 30 octobre 2001

Standing committee on estimates

Comité permanent des budgets des dépenses

Ministry of Energy, Science and Technology

Ministère de l'Énergie, des Sciences et de la Technologie

Chair: Gerard Kennedy
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ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

STANDING COMMITTEE ON ESTIMATES

COMITÉ PERMANENT DES BUDGETS DES DÉPENSES

Tuesday 30 October 2001

Mardi 30 octobre 2001

The committee met at 1544 in committee room 228.

MINISTRY OF ENERGY, SCIENCE AND TECHNOLOGY

The Vice-Chair (Mr Alvin Curling): We will resume the estimates on the Ministry of Energy, Science and Technology. From the last time, there were 12 minutes remaining for the Liberals.

Mr Sean G. Conway (Renfrew-Nipissing-Pembroke): I'm pleased to be here today. I was doing very important work elsewhere last week, so I apologize for not being here, although I see my colleague Mr Gerretsen raised a number of issues with you, Minister, and your staff.

In the remaining time, in no particular order, I want to raise a couple of issues. Let me start with the best estimates of the Ontario government, both at finance and at energy. What do your officials and your forecasters tell you the likely impact on rates will be when the market opens next spring?

Hon Jim Wilson (Minister of Energy, Science and Technology): Certainly we think that prices will be better than they would be if we kept the old monopoly system with its $38-billion debt. We are also doing everything we can, as you know, in terms of bringing costs down in the system. We've gone from 306 municipal electrical utilities to 91; 306 was 12 times more than the rest of Canada combined.

We've set up the new companies, particularly OPG, to run like a company and to start driving costs down. Because they will be the dominant generator in the early months, and perhaps the first few years, of the market, until such time as they complete the market power mitigation agreement and have no more than 35% of the market—by the way, we are well on our way in that process of freeing up space in the market for new generators. There is the market power mitigation agreement, which says that if prices are above 3.8 cents, which is approximately today's price of electricity, customers are to be rebated.

We know that in the early years of the market, while there may be spikes and highs and lows, we are doing everything we can to protect consumers and to make sure there's a good transition to the open market. In most jurisdictions in the world, some 40 jurisdictions that I'm aware of, prices have gone down in many cases or they've certainly been better than the trend we're on. That trend, prior to Bob Rae starting to freeze prices in 1993, was a 60% increase in prices under your government and the beginning of the NDP government, from 1985 to 1995. No other commodity in this country went up by that much, and at the same time the debt tripled. So you tell me that was the way to go.

Mr Conway: Time doesn't permit me to recount that history, which I know only too well, some of which actually was deliberated in this very room with William Grenville Davis sitting in that very chair and doing an able job of explaining why the future wouldn't unfold the way some naysayers said it would.

One of the things I know about government is that they've got lots of good people—smart people with names like Purchase and others, who are well educated—at finance and other departments in government who have these very good models. They can forecast pretty well. My question, Minister—and I appreciated that effort to emulate my friend Bradley—was very simple. What do your forecasters tell you they expect the impact on price to be when the Ontario electricity market opens six months from now?

Hon Mr Wilson: To repeat, we think it will be better than the trend line we've seen in the past for energy prices. In California, you don't hear much about it, because they've suddenly gone from having only three utilities, three main power generators and distributors—finally, when they realized they didn't have an open market, in recent months they've had four new generators built. You don't hear the stories any more because prices have come down significantly in that jurisdiction as a result of competition. That's been the experience. But you have to have true competition. You can't be half pregnant. You have to plan ahead, which is what we are doing. If we are to have—

Mr Conway: The price, Minister; forecast the price. If the answer is that you don't know, that's fair ball.

Hon Mr Wilson: The fact of the matter is, it is a moot question in that you're dealing with a market. Do you know the price of any other commodity tomorrow? This will be a commodity.

Mr Conway: Jim, I'm not being difficult. I remember—I won't even hold you to what you said three years ago. I'm being very generous here today. You made some pretty declaratory statements around what would happen when the market opened.

Hon Mr Wilson: Sean, if we're going to go on that basis, the fact is, we wouldn't be doing this if we didn't think it was good for jobs and the economy.

Mr Conway: I don't doubt that. I don't doubt that you believe that absolutely. My only question is simply this: the Minister of Finance next Tuesday is going to make an economic statement. He's going to forecast, as best he can, the next six to 12 months on the basis of his brain trust. I know some of your brain trust. I'm looking at it and it is pretty impressive. These are smart people. I know they will have said, "Minister, this is what you can expect." If you care not to answer that, I can understand why you wouldn't want to.

1550

Hon Mr Wilson: I guess where we've had to put a price out would be in something like the Bruce deal so you can know the value of the deal, and there's a range in there between about 4 and 5 cents, about where today's prices are.

Mr Conway: If I'm a residential customer in Collingwood or in Pembroke—

Hon Mr Wilson: But I can't give you a definitive answer. That would be my guess at best, or anyone's guess at best. I certainly can tell you one thing for certain, that the best guarantee of the lowest possible prices is competition, not the old monopoly system. Worldwide, they're recognizing that. We are just now moving forward like that in the province of Ontario.

Mr Conway: You make that point about monopoly, and I understand your concern about monopoly. I think back to some of the advice you got, the core advice of the Macdonald report, now four or five years ago. One of the things the Macdonald people said—and they couldn't have been clearer—was, "Government, Legislature, do not expand the mandate of Ontario Hydro Retail." We set up a legislative framework to allow what is now going on, a very substantial re-monopolization of the retail sector. It is as though we gave the Macdonald commission the middle-finger salute. You keep talking about monopoly. I'm just a regular person and I think, well, if they're so opposed to monopoly—and I can understand that—what on earth are you doing allowing Ontario Hydro Retail going out—I mean, they've spent $260 million they don't have to buy Brampton Hydro. For what provincial public policy purpose? We are the shareholder.

Hon Mr Wilson: Can I just answer that?

Mr Conway: Particularly around the monopoly question.

Hon Mr Wilson: We've not allowed them to buy any new retail.

Mr Conway: Oh, so I'm dreaming.

Hon Mr Wilson: In a free market, they'll have to earn their retail customers. These are the monopoly wires business. It wouldn't matter whether Hydro One owned it or someone else owned it. In my area, Barrie bought the local utilities. It is a natural monopoly. For the first time, its rate is set by the Ontario Energy Board, which is there to protect the customers and do what's right for the system.

Mr Conway: Are you denying that part of the Macdonald report which said, "Do not allow Ontario Hydro Retail to expand"?

Hon Mr Wilson: We did not allow Ontario Hydro Retail to expand.

Mr Conway: Yes, you did.

Hon Mr Wilson: Retail is a competitive process.

Mr Conway: Jim, the ruddy Bill 35—and you will remember this debate. I understand, I think, the argument that says you want to have a competitive marketplace. For me, the primary focus has to be on generation, not the rest of this stuff. I just look at the clippings that I see from across the province. People are stunned. I see up in Whitchurch-Stouffville a recent report, but there are about 85 or 90 of them. The rules in Bill 35 were gamed to favour the provincially owned company Hydro One.

Hydro One, as you would fully expect, took maximum advantage of that. They have been out buying up utilities large and small. There are people like Professor Kushner down at Brock University saying they're not only buying them but paying about a 30% or 35% premium to do so. There are service issues popping up all over the place. By the way, this is at the retail end that the consumer is going to understand. The question is, I look back and say to myself, if you're so anti-monopoly and you're worried about the customer, how is it that we ended up with a situation where in the early days we seemed to be struggling to get true competition in generation, but, boy, we've got a galloping horse called Hydro One out there buying them up with all the advantages we gave them in the legislation?

Hon Mr Wilson: With all due respect, retail is a competitive business. That's why there are new retailers out there today. We've actually opened that up. I don't want to correct you—you're kind of the dean of the Legislature—but retail is the competitive business. The wire business is a natural monopoly. We don't run six wires across the field. It is like Bell owns the wires and AT&T and Sprint are allowed, through federal competition rules that were brought in—

Mr Conway: I understand that.

Hon Mr Wilson: OK. We have not expanded retail.

Mr Conway: But I do remember Macdonald being very clear and declaratory on that point. And not only do we game the rules of Bill 35 to allow it to happen, but let me tell you, it is happening.

Hon Mr Wilson: It is not happening.

Mr Conway: I talked just recently to a number of independent contractors. They're telling me—and I think I've written you on this; if I haven't, there's a letter—"Boy, that's some marketplace." Hydro One out there is doing exactly what I would expect it to be doing. They've got themselves a protected market that they are apparently being very protective about. That so-called competitive market that you talk about—according to small, independent electrical contractors, they're getting the Hydro One elbow in the face every time they turn around. They are in the field; I'm not. Maybe all the mail is misleading as well.

Hon Mr Wilson: There's no greater champion of competition than I. I'm trying to get them out of the forestry business where they're in local competition. I'm trying to get them out of all of those businesses that they shouldn't have been in in the first place. But it is a natural monopoly wires business, no matter whether company ABC owns it or Hydro One owns it on behalf of the people of Ontario at this point. For the first time, the rate you can charge for the wires is regulated by the Ontario Energy Board. We're blind ownership on wires. What you're referring to is people not yet understanding that in a competitive market, you separate your retail customers—

Mr Conway: I know all that.

Hon Mr Wilson: They go into Hydro One retail and it's competitive. They are going to have to earn those customers—

Mr Conway: I understand that.

Hon Mr Wilson: —and Hydro One distribution, or wires, which runs the wires. They're different companies.

The Vice-Chair: Mr Minister, I'm enjoying this, but Mr Hampton has 30 minutes for his time now.

Mr Howard Hampton (Kenora-Rainy River): I have a couple of questions. Either before, during or after Ontario Power Generation leased the Bruce nuclear generating station to British Energy, did your ministry do any financial evaluations of the deal?

Hon Mr Wilson: Yes, as did the Ministry of Finance.

Mr Hampton: Would you be prepared to table those evaluations?

Hon Mr Wilson: All of those evaluations—the people who wrote them—were available the day that we made the announcement. No one, including your party, has ever called.

Mr Hampton: Would you table them now?

Hon Mr Wilson: We can give you the information we've already made public, absolutely. Plus, I've offered that the people who actually did it, CIBC World Markets and Salomon Smith Barney—their analysts were available and continue to be available to answer questions. No one has called them. They are very proud of their financial analysis.

Mr Hampton: I just want to be clear. I'm asking you for a commitment that you will table with this committee immediately any studies done by your ministry, any studies done by the Ministry of Finance or any financial evaluations commissioned by the government regarding the lease of the Bruce nuclear generating station to British Energy, that you will table those—all of them.

Hon Mr Wilson: All of that information, in great detail, with nothing blacked out, has been sent to the Provincial Auditor. I would be happy to discuss what isn't commercially sensitive information, because it's a competitive market we're setting up, and be guided by his judgment. But at the request of your party, he's looking at it. I'm happy to have him look at it. I expect he'll come to the same conclusion as the many financial advisers and the Ministry of Finance came to, that after a worldwide search it was a very good deal.

Mr Hampton: It's a simple question: will you table them?

Hon Mr Wilson: An officer of this Legislature has them all, and I will table everything that I can table, but I'm not giving you or anyone else, Howie, an unfair advantage in the new market by giving you the commercially sensitive data. But you're free to discuss that with the auditor.

Mr Hampton: For the record, I'm asking the minister and the ministry to table any and all studies done by the Ministry of Energy, by the Ministry of Finance or commissioned by them of the lease of the Bruce nuclear generating station to British Energy. I'm asking the ministry to comply.

I wonder if you could tell me, Minister, what processes you've gone through since September 11 in re-evaluating your plan to open the electricity market by next May.

Hon Mr Wilson: What do you mean?

Mr Hampton: A pretty significant event happened on September 11. Your government refers to it all the time. Since September 11, have you, in view of the events of September 11, re-evaluated your plan to open the electricity market by next May?

Hon Mr Wilson: Why would I? We're constantly working on implementing it. No, there has not been a major change of policy as a result of September 11. In fact, If you're talking about security, one thing I can tell you—and the PWU has told you beginning back when they had their press conference in October 1997—is that when the public service ran this thing we didn't run those plants very well. When I came in four years ago, I had to shut down 10 of 20 reactors. Why? Because the maintenance wasn't being done. Some of the highest-paid workers in Ontario were not maintaining our plants well.

Mr Hampton, if you have a couple of billion dollars of your own money in a plant, ie, you're a private sector owner, and you've got shareholders to worry about by the thousands or millions, you're going to make sure you live up to all the safety standards, maintenance and security, because that's $2 billion you might just lose.

Mr Hampton: It was a simple question, Jim.

1600

Hon Mr Wilson: When it goes to the public purse, obviously what they do is just go and borrow more money. There is no accountability or responsibility. Some $38 billion worth of debt and 10 reactors of 20 down, that's the proud public service record that you're trying to defend. Even the unions, both of the major unions out there, don't buy it. They say, "We can do a better job," and they've bought part of the Bruce deal, 5% of it, because they want to do a better job and they want to be paid on a performance basis to do a better job.

Mr Hampton: You've said that you will soon give a definite date for market opening. When will you give that date?

Hon Mr Wilson: We've also said that we'll be guided by—in fact, we've always said this. We never did set a date in November of last year. That was set by the media. It was a target date that was originally given out by one of the regulators and it became the gospel. So I'm not giving out any more dates until such time—and we've always said this from day one—the regulators say that the market's ready. They are in various stages of testing right now. The whole program has been transparent. The milestones and the dates are on the Web sites of both the IMO and the OEB.

You'll find that the next major report—all municipalities or local distribution companies have to self-certify and put in affidavits that they are self-certified by December 14, to tell us they're ready. That's a major milestone for the local companies. The OEB and IMO—particularly the OEB in this case, for retail—have a major report coming in in December. Mr Laughren has asked that they have the Christmas holidays to review that report, and he should be prepared to give me his advice as to the market readiness. The IMO will be ready at the same time to give advice as to the wholesale market, in early January, and I hope to be able to set a date for market opening soon after that.

Mr Hampton: Is there any chance that the date will be after May of next year, after May 2002?

Hon Mr Wilson: On the best advice of both regulators, we set that date. I hope we were prudent. We certainly think, unless they find some major glitch in testing, there will be nothing on the government side that should prevent us from announcing the date. We passed our law three years ago. It's up to the regulators, and in many cases the municipal operatives, the local distribution companies, to also be ready. We're certainly encouraging everyone to keep up the good work, keep working hard and make it. We've done our very best to say that we think all of the conditions for market readiness will be in place by May.

Mr Hampton: Do you support the Premier's statements and position to build more nuclear stations in Ontario?

Hon Mr Wilson: I think the point the Premier was trying to make was that we're a jobs-and-economy government, and if there are jobs to be had on this side of the border, rather than importing electricity from the United States, which we do from time to time, we should have those jobs and head offices here. We should try and build big companies in Ontario that export commodities. I think that's what he was trying to say. The feasibility of a nuclear plant at this point—I don't think the financial case is there.

Hopefully we won't ever get in a situation again where the planning wasn't done and you suddenly have to build these big mega-projects to produce enough power. With a competitive market, power plants will be built. They're already starting to be built and over $3 billion is in the planning stage. TransAlta, down in Sarnia, would be a good example, where the building is being built and the transformers have been delivered on site. It's a $400-million project in anticipation of an open market, but also responding to market forces.

I hope the days of monopoly multi-billion dollar mega-boondoggles are over and we actually free things up to let those people on the outside of government do what they do best, and that's respond to customers and put the services in place.

Mr Hampton: The question I want to ask you is on this particular issue. Do the events of September 11 and the obvious fact that there is no way to defend a nuclear generating station against a large passenger jet change your calculations or your positions in any way?

Hon Mr Wilson: What calculations?

Mr Hampton: Well, the Premier said he would like to see several new nuclear generating stations built in Ontario.

Hon Mr Wilson: You'll have to ask the Premier, as you are free to do every day during question period, and not me what he said. The fact of the matter is, I know what his intent was, and that was, we don't want any more multi-billion dollar boondoggles. But if there's a demand for electricity and we can have those jobs here—I mean, look at Manitoba and British Columbia. Look at Quebec. Quebec's great pride and joy is Hydro-Québec—better managed than we were, billions of dollars in exports, all geared up with the pride French Canadians have to boldly go into the United States and be a big part of their market. Why would we not want those jobs here in Ontario when we used to be the largest generator in North America? We've slipped so badly over the years under the monopoly system. Manitoba can't wait to build more lines into Ontario to sell us hydroelectricity. BC, with the demand in California, has done terrifically well, and we all know that story.

Why we would shy away from doing what our sister provinces of different political stripes and all ideologies are doing is beyond me. If there's a market there and we can provide clean, reliable electricity that people will need, then we should be in the business, is what the Premier was trying to say.

Mr Hampton: I have a report written by TD Securities in April of this year. It's a report to investors by David McCracken and Patrick Kim. Are you familiar with the report?

Hon Mr Wilson: I have seen it. I may have to ask my assistant deputy minister—

Mr Hampton: On page 4, they say, "We have also included primary reports on Ontario Power Generation and Hydro One," and, "The privatization of both companies is expected to occur within the next 12 to 48 months." My question is, can you state categorically that they are wrong and that Ontario Power Generation as a company will not be privatized over the next 48 months?

Hon Mr Wilson: No, the exact opposite. It will be privatized to a great extent. We've already done the largest privatization in Canadian history. That's the Bruce nuclear plant.

Mr Hampton: I'm talking about the company itself. I'm not talking about leasing assets or selling assets; I'm talking about the company itself.

Hon Mr Wilson: It's no secret the Market Design Committee, working with people like the Competition Bureau in Ottawa, said you can't have a free market in generation with the best possible prices if you continue to have a dominant generator. The market power mitigation agreement which was put together, not by the government but—

Mr Hampton: So you plan to sell Ontario Power Generation as a corporate entity?

Hon Mr Wilson: You know that it must have no more than 35% of the market within—

Mr Hampton: That's not the question.

Hon Mr Wilson: That is the question.

Mr Hampton: No, no. Look, regardless of how much power-generating capacity it now owns or how much generating capacity it will own a year from now, are you categorically prepared to say that the corporate entity, Ontario Power Generation, will not be sold, will not be privatized in the next 48 months?

Hon Mr Wilson: We've made very clear what our plans are, and that is, as it moves out of the domestic market and frees up space for new generators to come in so we can actually have some competition and check our prices rather than the old system of no checks and balances—God knows how they set prices; I don't. If you read their annual report, Ontario Power Generation doesn't intend to wither on the vine. They intend to be an aggressive player in the United States. That may mean buying plants in the States or leasing plants in the States, and we intend to have the head office here. The plans are to keep OPG as a strong, vibrant provincially owned company.

Mr Hampton: So you're categorically saying that OPG will not be sold, will not be privatized as a corporate entity in the next 48 months?

Hon Mr Wilson: What I'm saying is, there are two things going on. A large chunk of OPG has to be privatized, yes, but unlike the Macdonald report, we're going to keep back a core—and I've talked to Mr Macdonald many, many times about it—to try and develop a good international energy company that is publicly owned.

Mr Hampton: Can you state categorically that Hydro One will not be privatized, will not be sold off over the next 48 months?

Hon Mr Wilson: No, I can't. In fact, in February or so—earlier this year anyway—there was a joint announcement between SuperBuild and our ministry that we've asked our financial advisors to look at all options for that company, whatever's the best deal for the people of Ontario. That may mean status quo, but given Mr Conway's views—

Mr Conway: We both know the game that's going on here.

Hon Mr Wilson: It's not a game.

Mr Conway: Of course it is.

Hon Mr Wilson: It's a rather serious business, actually.

Mr Conway: Whack him, Howie. You got him here. You sound like you've bought up most of the market.

Hon Mr Wilson: That's not—

Mr Hampton: So you would be prepared to sell off what you yourself call a natural monopoly?

Mr Conway: Of course that's the game.

Hon Mr Wilson: Yes, we would be prepared. It will still be a natural monopoly. Whether we own it or someone else owns it doesn't change the fact that retail is separate from the monopoly wires business.

1610

Mr Hampton: On the same page, the report says about Ontario Power Generation, "Its status as a low-cost producer would make it an attractive investment into competitive high-growth initiatives." I'm going to ask you, will you rule out selling OPG as a way of raising revenue to keep your budget balanced?

Hon Mr Wilson: No. Under the 1998 Energy Competition Act, the proceeds go to paying down the $38-billion debt you guys left us. The treasury no longer is allowed to have those revenues because we have to pay down the debt.

Mr Hampton: Jim, look, let's be clear.

Hon Mr Wilson: You didn't do anything in your five years.

Mr Hampton: It was Conservative governments in the 1970s and 1980s that built billion-dollar nuclear plants. Don't insult people by trying to rewrite history, for God's sake.

Hon Mr Wilson: Howie, I can point to the debt going up significantly in the 10 years we weren't in office.

Mr Hampton: After you planned the building of Darlington and it cost $15 billion—

Hon Mr Wilson: Doubled.

Mr Hampton: —no wonder the debt went up, Jim. Don't try to rewrite history. Don't insult people, for God's sake.

Hon Mr Wilson: The fact of the matter is, you had an opportunity to do something about the trend line that was there, and I give Bob Rae—

Mr Hampton: What? Cancel it when it's three quarters done?

Hon Mr Wilson: I give Bob Rae credit for one thing: he finally realized that not everyone's going to be a rocket scientist and be able to participate in the high-tech economy, that we needed to get back to those traditional manufacturing jobs.

Robarts and Davis, one thing they did have, as a carrot to attract things like the Auto Pact here, were relatively low energy prices. We've gone from the best energy prices in the 1960s, 1970s and early 1980s, to the highest in Canada and among the highest, depending on the day, in North America.

The fact of the matter is, I give one credit to you then, Howie—not to insult you—but Bob finally figured out he'd lost so many jobs in this province, one thing he could do was freeze energy prices. He asked the Ontario Hydro board at the time to voluntarily do that and they did that. That's one thing we continued when we came in 1995.

Mr Hampton: This report also says, on page 7, "The North American reserve margin has shrunk from 30% in the early 1980s to 10% currently." This is the reserve margin of power generation. They see this as an opportunity for those who wish to buy utilities; in other words because the reserve margin is now so narrow, someone buying a utility stands to make a substantial amount of money. Do you agree?

Hon Mr Wilson: Certainly it's a problem that states should have responded to earlier, but again in many of these areas there wasn't any competition, the state ran it. California would be—because it's 30 million people, almost the size of Canada. When you don't build any plants for 13 years, you're going to cut into your reserve margin. When you have Silicon Valley move in, and millions of people, and you don't build one new generator, you're going to have a problem. As you probably know, they've finally seen the light. They're introducing competition, as best they can, and there's significant new capacity coming on-line, 41,000 megawatts. When you consider that our entire yearly installed capacity is 25,000, they're—

Mr Hampton: Since you've announced it, let me just ask you this: you're saying the margin will be adequate now, that the margin will go back up to 30%?

Hon Mr Wilson: Their regulators are the same as ours now. We didn't have a regulator in the past but were sort of self-regulating. Our regulator requires about a 15% margin, and we try and stay in that area. It's OPG's job to stay in that area. I think only during the heat wave this summer did we maybe get pretty close to that margin. The IMO will continue to require—what do you call it?

Interjection: NERC.

Hon Mr Wilson: NERC has also said—

Mr Hampton: Who's NERC?

Hon Mr Wilson: That's the regulator in the United States. The North American Electric Reliability Council said near-term electricity generating capacity is expected to be satisfactory in North America for the next 10 years, given the capacity that's coming on-line.

Mr Hampton: So you disagree with this report from TD Securities?

Hon Mr Wilson: I think they took a snapshot, a Kodak moment. That might have been the truth at the time they were doing that analysis. Since then, a lot has changed. Every day in the newspaper there's something happening in the energy field, more so than ever in the history of North America. With the mergers and now with new plant being built—even in the United States, if may just say, there's 6,000 megawatts of new capacity being built on the other side of our border. We're lucky right now that when we have it we're able to sell it in the United States. It's going to be tougher in the future because they're building more plant.

Mr Hampton: Correct me if I'm wrong. What I heard the President and the Vice-President of the United States say, and I believe the ambassador, Mr Celucci, said it as recently as today, is that they're interested in purchasing all the electricity they can get because, if I can quote Vice-President Cheney, "There seems to be a shortage of electricity," and they anticipate a shortage. I take it you're now contradicting those statements?

Hon Mr Wilson: In the Pennsylvania area alone—one of our competitors in New York is building—total net capacity additions underway now, I guess, or planned, 18,687 megawatts; New England, 11,467; New York, 14,762. Add those up and that's just about twice the amount of power we have available in Ontario. I'm telling you, maybe they're worried about OPG. They all read these plans and they're building their own capacity now and will certainly be less reliant on the inter-ties. For the record, no government sold more power to the United States than your government in the five years.

Mr Hampton: So you're basically saying prices will go down?

Hon Mr Wilson: We're saying it's going to be the best possible price. This is competition. It's our forecast, the best we could come up with. This is in the four- to five-cent range. This is the stuffer that went in everybody's utility bill recently. We're being as honest and forthright with the people of Ontario as possible. This is a business where a hundredth of a cent counts, so it's hard to be bang on. It's going to be a free market.

Perhaps I should have said to Mr Conway that if you look at what marketers are offering at the door today, it's within the range of where people think prices are going to be. It's not significantly higher than today. I think Direct Energy's done nine million visits alone and calls to people, driving some people crazy, I know, but obviously they think they can sell power at that price and that's probably about where the range is going to be. It might be a little higher or lower. I hope it's lower.

Mr Hampton: I just want to be clear. TD Securities, these authors, are very clear and their logic is clear. They say the margins in terms of the amount of power that is generated are very narrow. They say if you look at the expanding need in the United States, it's going to remain narrow for some time. On that basis, they suggest to their corporate clients that they purchase power-generating capacity because they say this all points to prices increasing. You're in fact saying that that report is wrong, that prices are actually going to go down?

Hon Mr Wilson: You're mixing up margins and prices. Availability of supply has a lot to do with the price. I'm just telling you, they've responded to those price signals and they're building new plant. There's quite a bit of plant being built. Maybe they all read TD's report and that's why they're building the plant. All I can tell you is, at that moment in time it was true. It was certainly true in California: not enough supply. You don't need a margin available there.

Mr Hampton: Since you're convinced that prices are going to go up, I wonder if you could tell us—we understand that this summer Ontario Power Generation had to purchase power from the United States on the spot market; you know, those very hot days when everyone was turning on their air conditioners. Can you tell us what the price was on the spot market, what Ontario Power Generation was paying on those days?

Hon Mr Wilson: I can tell you the price coming out of Quebec was about $1,000, and it was several times higher than spot market. If we could have bought more on the spot market to supply the power here, we would have. The free market provided cheaper power than we could get it from either of our sister provinces, because there's no market. They just set the price and it's a "take it or leave it" system with them: "If you want power, here's the price." At least in the United States there was competition and we could shop around and try and get the best possible deal for the people of Ontario in almost an emergency situation in terms of the fact that this had never happened before in the province.

Mr Hampton: I just want to be clear. It's your view that the power that OPG purchased from the United States this summer on the spot market was a good deal for consumers.

1620

Hon Mr Wilson: I'm just saying it was better than what was available in the Canadian domestic market. That's a fact. And at least we have some choice. I wish we had more choice, and if they keep building generation, we will, should we ever find ourselves in that unusual situation.

For the most part, power goes back and forth. Long before I was minister—I don't know how many years—they've been trading power, as long as there's been electricity interconnects across the borders. It used to be quite common that in the wintertime we would need a bit more power, so from time to time it was bought in the United States, which is not a bad thing. If it saves you building a huge, multi-billion-dollar boondoggle of a plant, it's probably cheaper and a better deal to buy it from a competitive system a few miles away. And we sell power—

Mr Hampton: I just want to be clear. You think it would be advantageous to be hooked into that power network in the US New England states, so we're talking about Massachusetts, New York, Pennsylvania, New Jersey. You actually think it would be beneficial for Ontario consumers of electricity to be clearly hooked into that market. That would be, in part, your definition of an open market.

Hon Mr Wilson: We are already. It's a fact of life. We help them out and sell them power when they need it, and as I was going to say, that was traditionally in the summertime. Actually, until New York started building recently, we used to take pride that we were providing power for the peak times—lunch and dinnertime—for the last several years in New York, almost on a daily basis.

There's 4,000 megawatts of power line between us and the States. Floyd's actually asked them to increase it to 6,000 so we have a free flow. I think we'll have very competent energy companies in Ontario that will compete with the best in the world and we'll sell power to the states in a sensible way.

I can tell you the only other options were to put the taxpayers further in debt. British Energy alone is spending over $400 million of their own money to bring two of the four laid-up reactors back. Where were we going to get the $400 million, when we were technically—well, not technically bankrupt. We were bankrupt. The assets of these companies aren't worth $38 billion. The debt was greater than the assets.

Mr Hampton: Others disagree with you, but we'll leave that.

Hon Mr Wilson: Of course you do: you had $11.8-billion deficits when you were in office.

Mr Hampton: I ask you this: will you table all the studies the government has done in regard to the impact of international trade agreements on Ontario's electricity system in the context of industry deregulation and an open electricity market?

Hon Mr Wilson: We've lived under NAFTA for I don't know how many years now, five years now, and there's never been a problem.

Mr Hampton: I'm asking you, have you done any studies?

Hon Mr Wilson: We don't have a study; there's no problem. There isn't a problem. Maybe the federal government did when they were writing NAFTA, other people. I've not commissioned a study, and I've been the minister for four years. There's never been a need to commission a study.

Mr Hampton: Have you done a study of the IMO rules that purport to require generators to ensure security of supply in Ontario? And if you have done any such studies, can you table those studies?

Hon Mr Wilson: The law itself would be all you need. It says that they have to look after the people of Ontario. It's very clear; in the Energy Competition Act, we established it. By the way, we've been running under NAFTA for years. Nobody lets the lights go out in their jurisdiction and favours another jurisdiction. You wouldn't be in government any more than about an hour. Common sense dictates that you supply your domestic customers first. Not only is there no incentive to let the lights go dim in Ontario—

Mr Hampton: I'm not interested in your definition of common sense. I'm interested in the law. I want to know if you've done the responsible thing and you've done any studies.

The Vice-Chair: You've got two minutes

Mr Hampton: Have you done any studies of how the NAFTA agreement would affect Ontario's hydro-electricity system in the context of an open market? Have you or haven't you? And if you have, will you table the studies?

Hon Mr Wilson: The law more than covers us, we feel. We've been running under NAFTA for many years, the open market. If anything, you won't have Ontario Hydro doing backroom deals with people whom you don't even know they're dealing with. It's an open process. The regulator is made up of the people of Ontario, not the government; it's arm's-length from government.

Mr Hampton: I'm asking you about NAFTA. Have you done any studies of how NAFTA would affect—

Hon Mr Wilson: No.

Mr Hampton: —Ontario sales of electricity in an open electricity market? Have you?

Hon Mr Wilson: It's a moot point.

Mr Hampton: So you haven't done any studies?

Hon Mr Wilson: I'm not studying something when there isn't a problem.

Mr Hampton: Well, if you haven't done the studies and you think you know what the law is, tell us, please, what would be the impact of NAFTA upon Ontario's hydroelectricity system and the sales in an open market? Tell us definitively.

Hon Mr Wilson: Well, you tell me one thing in NAFTA—and I'm extremely familiar with the agreement because I was an assistant in Ottawa when free trade was originally done—that compels us to sell electricity to someone we don't want to sell power to. You just tell me the opposite argument for why I should go spend millions of dollars on something that doesn't exist; only in your mind, Howie, and a few critics'. It doesn't exist. There's nothing to compel you to sell to someone you don't want to sell to.

Mr Hampton: So in your view, chapter XI of NAFTA is not a concern.

Hon Mr Wilson: No, it is not.

The Vice-Chair: Your 30 minutes is up. The minister has 30 minutes; he could maybe take some of his time if he wants to respond to the member of the third party. You have 30 more minutes, Minister. You can use it to either do your wrap-up or you can share it with your colleagues over there.

Hon Mr Wilson: I think, with the indulgence of my colleagues and the great generosity and spirit of collegiality, we're going to suffer through another few minutes of the other half of my speech. The first half was rather riveting, and I wouldn't want to miss the second half, Mr Chairman. I'll continue with my remarks, if that's OK.

The Vice-Chair: So you will take questions?

Hon Mr Wilson: I think during our round. I'm going to finish my statement.

Mr Norm Miller (Parry Sound-Muskoka): Mr Chairman, we'd like the minister to continue with his speech, which he wasn't able to deliver in its entirety the other day. We'd like him to enlighten us with the rest of his speech.

The Vice-Chair: That's fine with me.

Hon Mr Wilson: When I last left my remarks, I had just finished the section dealing with the initiatives we have on the science and technology side of the ministry. Now I'd like to tell you a little about our activities as they relate to the energy sector.

As you are aware, the government has announced that Ontario's electricity market will open to competition by May 2002. The government will continue to push for the earliest possible date for opening, contingent on meeting the key principles we have set out for market opening. These market opening principles, which I'll review shortly, fulfill the ministry's and the government's mandate, as outlined in its statement of environment values, to ensure that Ontarians have access to safe, reliable and environmentally sustainable energy supplies at competitive prices.

Before I get into any specifics, however, I think it's worthwhile to go over the reasons why Ontario decided to move away from the old monopoly system.

When our government was elected in 1995, we promised to put Ontario's taxpayers first and allow market forces to work to the benefit of taxpayers and consumers. We were committed to working on the pressing problems we had inherited, and among them was our electricity sector. Put simply, the old Ontario Hydro monopoly had become out-of-date, inefficient and just too expensive for Ontario's 4.1 million electricity customers.

While for almost a century Ontario Hydro had played a key role in the province's economic development by generating the electricity that local utilities provided to their communities, things clearly had to change. Ontario's electricity sector was no longer doing the job it should have been.

In the 1980s and early 1990s, we went from having one of the lowest prices for electricity to the third-highest prices in Canada. In doing so, the former Ontario Hydro also ran up a debt and other liabilities of some $38 billion. Clearly, something had to be done. We had no other choice but to fix the problems of the past and to safeguard our future electricity supply, and we are confident that competition will accomplish these goals.

The government has worked hard to strengthen Ontario's competitive fundamentals through tax cuts and pro-taxpayer, job-creating policies. As a result, we've emerged as one of the most competitive jurisdictions for business investment and job creation in North America. We intend to maintain and further strengthen Ontario's competitiveness through electricity restructuring.

1630

Energy prices, including electricity prices, are under upward pressure globally. Ontario cannot isolate itself from this trend. A competitive electricity market will ensure that the supply to all users remains safe and reliable, that prices remain competitive and become more competitive, and that consumers get the best deal possible.

As Premier Mike Harris and I announced earlier this year, Ontario's plan for market opening is based on four key principles: (1) protecting consumers and offering more choice; (2) ensuring a strong business climate with a reliable supply; (3) protecting our environment; and (4) encouraging new ways of doing business and supporting the search for alternative sources of power.

Once again, we plan to have all the necessary conditions in place to open our $10-billion-a-year electricity market to competition by May 2002.

The Ontario Energy Board and the independent electricity market operator, or IMO, are coordinating the steps toward market readiness. As I said to Mr Hampton a little earlier, I'll be receiving recommendations in the next few months on the progress being made by market participants.

The OEB is licensing market participants, that is, electricity retailers and marketers, and approximately 50 licences have been issued so far, with about two dozen pending, so it looks like we're going to have a robust, competitive retail sector. The OEB has also established milestone dates that the local distribution companies, or LDCs, are responsible for achieving to ensure market readiness. The OEB has been given authority to levy penalties against local distribution companies who do not meet these milestone dates.

For the LDCs, market readiness means that each company is able to calculate settlement costs, produce unbundled bills, provide standard service supply, change suppliers and accommodate retail transactions.

The local distribution companies are required to test all necessary functions and, as I said before, file a self-certification document with the OEB by December 14 of this year certifying their readiness. The Ontario Energy Board and the Independent Electricity Market Operator will advise me on an ongoing basis during that interim period on the readiness of market participants. The government will decide on a market opening date based on that information and achievement of the four market opening principles that I just outlined.

Our overall goal for a competitive market is a simple one. Again, it is to ensure that Ontario's electricity customers, whether they're residential, commercial or industrial, enjoy a safe and reliable supply of power at the lowest possible prices.

We've taken great care to ensure that our market functions successfully upon opening. That's why we've been watching the restructuring of the electricity sector in other jurisdictions with great interest. Despite some of the problems that some jurisdictions have had, I'm still encouraged by the many success stories that are out there, because, when done right, customers benefit through better service and the best possible prices. We intend to do it right in Ontario.

It's unfortunate that most of the media attention has focused only on the problems that jurisdictions such as California have been experiencing. But I want to tell you that Ontario is not California. We've made that clear, by the way, as often as possible, and so have a lot of the people in the electricity sector in Ontario in trying to educate the public that we are not California. A comparison with California is a stretch, to say the least.

In restructuring Ontario's electricity market, we've been careful to ensure that we won't experience sky-rocketing prices or rolling blackouts. One of our key principles is to protect customers, and a key policy issue we faced is how to deal with potential price spikes during the transition to a competitive market. Our made-in-Ontario response is the market power mitigation agreement with Ontario Power Generation. That agreement is a mechanism to protect consumers by preventing Ontario Power Generation from using its market power to increase prices above competitive levels. It reduces the company's ability to financially benefit if the wholesale price of electricity goes above 3.8 cents per kilowatt-hour.

Right now, Ontario Power Generation is the single largest electricity generator in the province, producing about 75% of our electricity. As part of the market power mitigation agreement, again, we are requiring that the company reduce its market share to 35% within 10 years of market opening.

And Ontario Power Generation has been making progress toward that target. The company has a leasing agreement with Bruce Power for one of our nuclear facilities, the Bruce nuclear plant. This has effectively decontrolled more than 3,000 megawatts of current operating nuclear capacity. Actually, that's not quite right; it's closer to 2,000, I think. For its part, Bruce Power has announced its plans to restart an additional 1,500 megawatts of laid-up nuclear capacity at Bruce, spending between \$300 million and \$600 million of its investors' dollars in the process, not once again hosing the taxpayers of Ontario and saddling us with the debts. Oh, 3,000 is the right figure for Bruce Power.

Ontario Power Generation has also announced plans to decontrol more than 4,000 megawatts of fossil and hydroelectric capacity, as it is required to do, within 42 months of market opening, and it is actively seeking investor interest. In fact, if you include the inter-ties—correct me if I'm wrong, gang—the non-utility generators, the NUGs, and the plants we have on the market now, of which the final tenders for this round are mid-November, we will have "decontrolled," the industry word, but put in other people's hands, either through lease or sale, about 38% of the installed capacity of OPG. So we're well on our way to freeing up room in the market for new generators to come in and provide some competition.

In short, the groundwork has been done to ensure that there is a competitive market, and private investors are responding. So far, \$3.6 billion in new generation projects have been announced, with some projects already underway, such as TransAlta's new 440-megawatt facility in Sarnia. The new projects which have been announced speak volumes about Ontario's electricity future. They represent a strong vote of confidence in our new electricity market. And new generation projects will allow us to meet any increased demand for electricity without forcing taxpayers to take on the risks that the private sector is willing to accept.

But even without new generation projects, Ontario's supply forecast is favourable. We can't just rely on growth to have a competitive market. We have to shrink OPG on this side of the border and expand it elsewhere and make room for new generators. I think that's pretty clear.

Talking about our forecast of supply, there was a report issued by the Independent Electricity Market Operator on October 5 that shows that Ontario's electricity supply situation is more than adequate to meet our current electricity needs. I would add to that that if you don't want to become a California—and the supply forecast was a 10-year forecast. We had a more near-term one, I think, too, but the big one was 10 years. The last one was 18 months. The 10-year forecast shows it's pretty good in terms of supply.

Mr Conway: Forecasts? We have forecasts.

Hon Mr Wilson: We do, and they're public; they're on the Web site.

If you don't want to get caught in a supply crunch, like California, as an example, and Alberta to a great extent, then you'd better start planning now for those plants that have to come on line in five to 10 years' time. Plus, we hope the province will keep growing. I hope we'll have a Silicon Valley here in the future, more so than we do now. That's what the other part of the ministry is working on, and that will bring new people, new jobs, and they will all need new or additional sources of power. So we're planning ahead also by welcoming private sector investment at this point in our history.

I also want to mention that CIBC World Markets also did a report, not commissioned by the government, and their independent report, published earlier this year, confirmed that Ontario has a large supply of domestic electricity. We should provide you with a copy of that report, for anyone who wants it. It's quite a good overview, as is the TD report that Mr Hampton was referring to. It's just that he's selectively pulling some stuff out of the TD report.

1640

Interjection.

Hon Mr Wilson: I understand the business. I learned it from some of the best, Sean.

The CIBC World Markets report confirms that our competitive market will deliver benefits to consumers, companies and the economy as a whole.

Electricity restructuring will also benefit the environment. We've seen that already with a number of environmental projects announced around the province or currently being built. The majority of this new proposed investment is based on clean, gas-fired generation, but we've also seen windmills, more biomass projects. I would say to Mr Wettlaufer that it was a real pleasure touring the city of Waterloo's new plant, not too many months ago. When up and running—they're taking the methane gas off the city landfill site which otherwise would have gone up to hurt the environment, particularly the ozone layer—they'll produce enough electricity out of that plant, just from the gas from the garbage, for about 8,000 homes when fully operational, which is pretty terrific.

Air quality will be further improved by the availability of green energy options. We expect that competition will further encourage greener forms of energy, as we talked about, some of the other technologies—solar, which I didn't mention. Consumers from time to time will get a report on the emissions created in the electricity they're buying. Over time, they'll be able to know that if it's coming from this plant, these are the emissions it created; if it's coming from this plant, like a nuclear plant, harmful environmental emissions aren't created—very, very minimal compared to a coal-fired or oil plant or fossil fuel plant.

Supporting the search for new technologies will also ensure our future supply of electricity, obviously broader-based and indeed more secure than just relying on one or two means of generating future electricity. To help further this principle that the Premier announced as a condition of market opening, that is, alternative sources for generating electricity, we set up a select committee of the Legislature called the select committee on alternative fuel sources. As you know, the committee is currently looking at what can be done to facilitate greater use of alternative fuels, especially in electricity generation and transportation. I certainly look forward to receiving their report next year. I know that quite a few associations and companies have taken the opportunity to present to that committee or to write to it. I had a very good story the other day from the Canadian Wind Energy Association president, who said he thought the committee was great and encouraged us to continue to move forward with competition, because in the old days, if Ontario Hydro didn't want to sell the power you generated out of your windmills, they didn't sell it, so windmills didn't go up. This opens a whole new era. In future, the government's not going to decide for you—unless you want us to; you can be a default customer and your local distribution company will get the power for you and you don't have to do anything if you don't want to. But I think we're going to release a whole new entrepreneurial and scientific era in this province with respect to energy. Finally, the guy who has that windmill on top of Blue Mountain, which we toured, can legally sell it into the system—I won't tell you what his current arrangements are—and he may want to put a few more windmills up to make it even more worth his while.

In closing, I'd just like to mention that the work the Ministry of Energy, Science and Technology has been doing to educate consumers about the upcoming competitive market is about to take on a whole new phase. We had sent out a bill stuffer last year, as I have mentioned many times in the House. We've had the toll-free numbers out there, both the OEB and the ministry, to provide information to people. We've put those in local papers, in banner ads. But we are gearing up to be much more visible out there, letting people know what they can expect in the new market. I did have some figures. It's not exactly that one I want. Maybe we could expand on that if somebody asks me a question about it later.

We have done quite a few focus groups. We've also talked to many of those jurisdictions that have already gone down this road, including our own market design committee, made up of industry, environment and the Consumers' Association of Canada, which helped put things like the market power and mitigation agreement and helped develop our plans for opening the new market. They say that in terms of advertising or educating the public—I guess we're not really advertising but educating, because we're not selling anything—about the new market, you should do that within about six months of market opening or people are going to forget. You might spend several million dollars and nothing happens, and then they wonder, what was this all about?

So last year a stuffer went in. I thank all the local distribution companies, which at that time was over 100 municipal electrical utilities, and now I think all 91 local companies have agreed to put this in the bill. It has been printed and they're putting it in the monthly envelope. They did that last year and I suspect a lot of people just threw it out: "Another little notice from my utility." I think now they'll start to pay a little more attention because we're starting to hear a bit more about it.

Jack Gibbons, of the Clean Air Alliance, wrote to me two weeks ago actually complimenting this, a very succinct letter saying he'd just received this and he thought it was very well done. He said, "Congratulations. Jack Gibbons." Now, Jack doesn't write our government too often with compliments. He has normally got other types of advice to give us in the public policy development process. In fact, we should send him this Hansard, because I want to publicly thank him. He had a couple of comments that it was easy to read and it was the right information. We've even stuck our necks out; we've put a price in here to try to illustrate to people that that's probably about where it's going to be. We've tried to explain that when marketers are coming to your door, they're telling you about the commodity price, and we've tried to illustrate the other charges that they're not telling you about. Last year's brochure had a series of questions you should ask people coming to your door or phoning you. We repeat some of that in here and go a little further by actually giving them an illustration of what things might look like. This is the actual little stuffer there, and the chart's on the back. It's a condensed version of this. It doesn't have my picture on this one—just kidding.

With that, Mr Chairman, I thank my colleagues for allowing me to finish my remarks, and I'd be happy to take any questions.

The Vice-Chair: Thank you, Mr Minister. The time you have is about eight minutes.

Mr Miller: I'd be happy to ask a question. Minister, in your remarks on several occasions you talked about the debt of the old Ontario Hydro. I believe the number used was $38 billion. I certainly know, from running a business myself, that if I have a debt of $38 billion, I would assume I have some matching assets to go along with that. In the case of a small business that I might run, if it was worth a couple of million dollars, the banks would probably only lend me up to about half the value of the business anyway. I'm wondering what sort of assets the old monopoly has to match that $38-billion debt that was piled up over time.

Hon Mr Wilson: How about I ask Dr Bryne Purchase to try to comment on that? He is not only the present Deputy Minister of Energy, Science and Technology but a former Deputy Minister of Finance and can help you with the details. I'll just generally say that Bryne will give you an overview of the $38 billion in total debt and liabilities. Some of that, obviously, was transferred as part of properly setting up the new companies, giving them a debt-equity ratio in Hydro One of about 55-45 and about 60-40 in OPG. The actual stranded debt is obviously less than $38 billion, because they're servicing that debt.

1650

Stranded debt—just a reminder, if anyone in the world outside of here is listening—is debt that can't be serviced in a normal commercial environment, so it's stranded. It's like, "Hey, nobody owns this" and it's stranded.

And it was stranded. The Toronto Star again last week said this is somehow saddling the people of Ontario with the old Ontario Hydro debt. It's the stupidest editorial I've ever seen in my life. Where did they think the debt was in the past? It has always been with the people of Ontario. The government is the back-stopper for the monopoly system. In fact, it was worse in the past because no one ever really took ownership of this thing. No one had a plan to deal with the debt. OPG, the successor to Ontario Hydro, was just meeting its minimum payment. The principal wasn't shrinking; it was getting larger. In fact, in January of this year there was a special report from the auditor saying, "With the current repayment scheme and all the money you've spent on the environment, about $2 billion over the last half a dozen years or more, there's not enough money going in to pay the stranded debt that's there, so you're going to have to do something about that," which we did. I'll let the deputy comment on what in the past would have secured that debt.

Dr Bryne Purchase: We started with the $38.1 billion worth of liabilities in the Ontario Electric Financial Corp. We then valued the companies, OPG and Hydro One, which have an asset value of $17.2 billion. Just to give you the details on those two companies, we had equity of $5.1 billion in Ontario Power Generation and debt of $3.4 billion. Now, the government acquired the equity, the $5.1 billion, by taking on the debt that had been issued to the company of that amount, $5.1 billion. The other $3.4 billion of debt that the company had is also owing to the Ontario Electric Financial Corp. So you have the government with $5.1 billion of that debt and it pays interest payments to the Ontario Electric Financial Corp, and you have Ontario Power Generation with $3.4 billion of debt, and it is also paying interest to the Ontario Electric Financial Corp, so the sum total of the value of those assets, if you like, to the Ontario Electric Financial Corp was $8.5 billion.

We did the same thing with Hydro One, where the government took an equity interest of $3.8 billion. We did that again by taking part of the debt which had been issued to the Ontario Electric Financial Corp on to the government's own books. Ontario Hydro was itself left with $4.8 billion worth of debt, which is also owing to the Ontario Electric Financial Corp, the total value then being $8.6 billion.

Having restructured the companies, what happens, effectively, is that we now have interest payments flowing to service the $38.1 billion worth of debt and other liabilities. We now have interest payments flowing from both the province and the companies into the Ontario Electric Financial Corp. The value of that is $8.9 billion worth of debt which the province has and which is owing to the Ontario Electric Financial Corp. It has that in exchange for an equivalent amount of equity in the companies.

The two companies themselves have $8.2 billion worth of debt owing to the Ontario Electric Financial Corp and again are paying interest, so there's an interest flow associated with that debt. In addition, we have $100 million worth of debt for the IMO, which was one of the corporations created out of the restructuring. So the independent market operator also had to be financed and has an initial debt of $100 million.

The Vice-Chair: You've got two more minutes, Deputy.

Dr Purchase: So those are the assets. Then there are payments in lieu of taxes flowing in to service the remaining debt, plus there is a capacity for a debt retirement charge of $7.8 billion.

Mr Miller: Does that mean the assets are roughly $17 billion on $38 billion?

Dr Purchase: Yes, that's correct.

Mr Miller: That certainly seems to me to be a good reason to change the way we're doing business. Obviously, no business in Ontario would survive under those conditions.

Mr John O'Toole (Durham): I just want to ask one specific question.

The Vice-Chair: Make it short.

Mr O'Toole: The $19.7 billion in stranded debt—is that dealt with in your numbers or is it part of a debt retirement charge yet to be levied on the grid?

Hon Mr Wilson: The short answer is that in your bill today you're paying for the debt. It's about 35% or 34%.

Mr O'Toole: Including the stranded debt?

Hon Mr Wilson: Including the stranded debt. But if you want to pay off more, you could put a charge in.

The Vice-Chair: That's the short answer. Mr Conway, you have 20 minutes.

Mr Conway: I think it would be helpful to some members of the committee, maybe everybody—I would certainly like to see, as early as possible, the latest paper on this valuation of assets and statement of debt.

One of the problems I have with this—and I say this respectfully, because quite frankly, to me it wouldn't make any difference who was over in the government chair. One of the reasons I'm so angry about this—and I've got a lot of respect for the minister; he's a conscientious fellow. But I've been in this room before. I've heard ministers and Premiers of all kinds come and tell me what it is that's going to happen. I don't want to embarrass at least one person in the room, but I remember the 1981 campaign. One of the reasons I think I can be so ecumenical about this is because what has happened—and it's a big bloody mess; I'm the first to agree—represented the clear consensus of big government, big business and big labour, and it was blessed with at least three electoral sanctions. There were a bunch of weedy-tweedy naysayers who kind of rattled around the place saying, "It's not as pretty and as good as it looks." And guess what? They were right.

That's why I'm from Missouri. I belonged to a government that was equally culpable. That's why I just don't accept any of this any more. The one thing I've learned is that healthy skepticism is a very good place to start with the electricity debate. The minister says, and he makes a point—the public monopoly. Well, you know, René Lévesque was able to dine out 35 years ago on Montreal Light, Heat and Power, which, as I recall, was not a public monopoly. One of the things we learned from the American experience is that the electricity market—I'm one who wants to see reasonable competition in the generation of electricity, but I understand that electricity is not a commodity like the rest. You absolutely have to have it, you can't store it, and as Professor Purchase will say, far more thoughtfully than I, it responds in very different ways. What is it, Bryne? It's inelastic in a variety of ways that are important.

Minister, one of my questions to you is, when we look at the American market, one of the things we're told is that there is a very, very significant pressure to game this market, and I believe it. It was very interesting when the former Governor of Texas, now the President of the United States, went to California to meet the Governor of California. Who can have any sympathy for the California state Legislature? I agree with you: we're not California, and they did a lot of this to themselves. They designed a package that was ridiculous and wouldn't allow any new generation—totally foolhardy, it appears. The issues around generation are not easy. I tell you, this is a problem much more easily defined than fixed. But one of the questions the Governor of California had for the now President of the United States was, "Mr President, can you explain why Texas gas being delivered at the California border is four times more expensive here than up in New York state?" The Washington Post just recently had a detailed piece on the electricity marketplace in the United States, and it was chapter and verse about the forces at work to game this market—and not just private players. I mean, you mentioned Powerex, the retail arm of the public utility in British Columbia. They're all offering up hundreds of millions of dollars worth of rebates now because they were basically picking the pockets of consumers.

1700

So one of my questions is, given what we know about the American experience, what do we know about the British experience? We now know that in the first five or 10 years, they sold off assets at bargain-basement prices. One of the questions I have for you, Deputy, is simply this: what is the current valuation? We've got about, what, 7,200 megawatts of hydroelectric generation in the mix? I think I'm right about that, am I not?

Hon Mr Wilson: On the market now?

Mr Conway: OPG would have about 7,200 megawatts of hydroelectric power generation. I think that's the number, but I could be wrong. It's roughly about 25%.

Hon Mr Wilson: Yes, 8,000.

Mr Conway: All right, 8,000. Bryne, can you tell me, what is the valuation of that 8,000 megawatts? Before you answer that, what did you say our valuation is of the generating assets of OPG? What did you say it was?

Dr Purchase: It was $8.5 billion.

Mr Conway: And of that $8.5 billion, how do we value the 8,000 megawatts of hydroelectric generation? Have you got a number for that?

Dr Purchase: No, I don't recall that number offhand.

Mr Conway: I'd like to see a number for that, because that's one hell of a valuable asset, let me tell you. If you're in the electricity business and you've got 7,500 to 8,000 megawatts of hydroelectric capacity already installed—granted, it may need some upgrades—I'd really like to see how that's valued. In this conversation that the minister was having with the leader of the third party about decontrol and privatization, the minister was absolutely right, to a point. But remember what it is we built, with all kinds of democratic sanction. At the beginning of this new round in 1997, we had a generating portfolio that was at least 50%, probably 60%, nuclear. We can never sell that. We can lease, we can swap, but we were told by the federal regulator—and that will never change. Her Majesty will always own that.

One of my questions is, so now what have I got? I support the principle of doing something at Bruce. The minister is absolutely right: we had it for 25 or 30 years and we didn't do a very good job of running it. But my question is, what does it mean to lease these assets? You make the speech about relieving the taxpayer. At what do we rate our available nuclear capacity—about 11,000 or 12,000 megs, 13,000? Well, half of the asset base is nuclear, and we can never sell it.

There are going to be very significant short-term pressures to get some return from that, and I can understand that. Wilson will be gone and Conway will be gone and perhaps even the professor will be gone. But there'll be young people like Norm Miller, who'll be here forever, and 20 years from now he may wonder, "So what was that deal?" I say this very seriously. "What kind of a deal did we cut?" Because guess what? At the end of the day, that little bag of goodies is going to be given back to Her Majesty and whatever group of advisers he or she has at that time. So what am I to make of that? What kind of protection is there there for the taxpayer? There would be some people who would say to be careful, because some smart operator is going to get those things, knowing the ownership will always vest with the crown, and run the guts out of the damn things and give it back to the car dealer. It's like when you're giving your car back to your dad or mother on Saturday morning; you are glad he or she wasn't along for the ride Friday night.

I guess those are kind of rhetorical questions. What kind of protections do we build into this scheme so that the Legislature that's here—this won't present itself for three or four or five years. In the court martial I want to have now, all the key players are gone. I'm looking at Wettlaufer and Peters and Miller, and who are they? Nice, new people. They don't have their fingerprints on any of this stuff. What about these deals we're making?

Now let me ask a direct—all right, Jim, go ahead.

Hon Mr Wilson: You've hit a couple of nails bang on the head that are concerns out there. Gaming the market is something that every jurisdiction has to be very prudent about. In Britain, they've had to change the rules a few times. They're in the process of probably doing it again. That's no different than our own stock exchange, though. You have to be vigilant and you have to be on top of things.

In response to that, the Independent Electricity Market Operator, when we first established it, is required to have a market surveillance panel, which—like the investigations going on now with the terrorism money, how do you find that? You have a market surveillance panel that can keep a pretty good eye on the market and see if anyone is gaming it. For the one company that we know that will have a dominant position going in, we've put in place the market power mitigation agreement, which is of great benefit to the people of Ontario.

Gaming the market, you're right, is a legitimate concern, but it's not an insurmountable obstacle and not one that should prevent us from establishing a market like every other commodity in the world. But it has to be something you're constantly on the lookout for and you have to have a process in place to deal with that.

Mr Conway: I agree that we had to change the way we did business. Listen, I'm a lot more culpable than most of you. But you mentioned something, and the deputy and I were talking about this beforehand. Did anybody read the Globe and Mail last week, the four- or five-part series on the Ontario Securities Commission and insider trading?

Hon Mr Wilson: Yes.

Mr Conway: I want to know why people aren't kicking the bloody door of this joint in, because there are hundreds and thousands of retailer investors who should be just mad as hell. Now, that's just what the Globe found, and maybe that's all there is, but that article makes plain that you've got big international investors like Fidelity laughing at us. I won't quote Radlo, but he says it pretty bluntly about "up there" and the unreliability of that marketplace. There won't be a peep in the Legislature, but there it was, four lengthy articles—just outrageous.

This market is one where you say this is a $10-billion marketplace. We know from the United States, we know from Britain, and we know because that's why Adam Beck could build his great power movement to start with. This was a market that a long time ago attracted some of the worst pirates in Canadian capitalism. Of course, we now have this naive belief that they've all gone away.

When I look at this, I look at the Market Design Committee, and they said, "Listen, market power and gaming is a real issue." Minister, to your great credit, you established a very distinguished group of people on the Market Design Committee. Remember one of the things they said? They said that our market mitigation was second-best. They raised some very serious, fundamental concerns about the design of our marketplace. They're a lot smarter than I am. I read that and I was really troubled by it.

Hon Mr Wilson: Can I just comment on that?

Mr Conway: Yes.

Hon Mr Wilson: I think the "second-best" came from—and I think you'll find some of those are more pleased now than they were. There was a real push by the private sector to do exactly what Macdonald had recommended and carve the whole thing up into tiny little companies and sell 'er all off. We didn't think we wanted to do that. We thought that was unfair to the workers there and we thought it was unfair to the taxpayers. We said, "Jesus, if everybody knew that was the plan, then you'd end up with a fire sale." So we had our differences there at the beginning. You get people like Steve Probyn, who were part of the Market Design Committee, who frankly didn't agree with some of the things. Those guys were in conflict, though. They wanted to buy these little companies up.

Mr Conway: On that, let me just come to another central concern.

Hon Mr Wilson: So we decided we'd set up an independent market operator to deal with these things. I think that's where they said it was second-best.

Mr Conway: Oh, they were pretty clear, Minister. They were very clear. I understand what you're saying.

I've got very little time, so let me get to a couple—

Hon Mr Wilson: They also had their own motives, selfish motives.

Mr Conway: Hey. The Market Design Committee, Ron Daniels et al?

Hon Mr Wilson: No, some—

Mr Conway: I'm just talking about Daniels. I'm talking about that second report. They couldn't have been clearer.

Now, let's get to another issue. I played a lot of sports when I was growing up and I never liked being in a game where you had what we've got in this situation, and I say this very ecumenically. But what have we got here? We find government in a fundamental and almost complete conflict of interest. Why? Well, using a hockey analogy, we own the arena, we hired the ref, we wrote the rule book, we have the big teams on the ice, and worst of all, we have a vested financial interest in the outcome of the game. I, as Joe Q. Public, as Andy Donato's caricature, am supposed to just expect that whomever is in that chair—it could be Wilson, it could be Conway, it could be Lankin; it doesn't really matter. I have a really significant corporate interest and it may take me in a very different direction than the customer interest. When I get a situation like that—and there is a good portion of it that's unavoidable—then I want as much transparency as I can get.

1710

It's nice for Wilson and the professor to come to this committee. It's kind of like Alan Greenspan taking his latest thoughts about monetary policy and fixing a recession to a grade 8 class in some suburban Washington public school. I really want that smart deputy minister of yours, on an ongoing basis, to have to go before some kind of really tough, bloody-minded public utilities commission where a bank of really tough, smart lawyers and consultants is going to have at him and he at them. Out of that dialectic, I might get a sense of what's going on.

My question is a very simple one: given the basic conflict of interest that we've got here in terms of government, why don't we have more transparency, and what can we do to give the consumer, the taxpayer, a higher level of comfort? When he or she reads, for example—the Toronto Star the other day had a piece by Robin Harvey, Consumer Watch, which I've got here. I'd read this and say, "What have we got here?" We've got the OEB telling us that a couple of the schemes our company is offering look like they breached the electricity retailers code of conduct. We've got close to three quarters of a million people—before the nice glossy pamphlet has been prepared—who have all signed up, and boy, have they signed on to some interesting deals.

Hon Mr Wilson: Not before. We had one last year too.

Mr Conway: Well, my point is, what about this conflict of interest, what about some transparency, and what about some mechanism to keep all the players honest in this?

Hon Mr Wilson: Good points, except that I think actions speak louder than words. You have to admit, Mr Conway—I would hope you would admit—that this has been the most transparent system ever, in moving from a royal commission, as it were—Donald Macdonald, the former federal Liberal finance minister and his advice—to a white paper to four years of implementing that white paper. If you go on the Web, you'll see every report ever given to me on there, including financial advisers saying, "We think the Bruce is a good deal."

Mr Conway: It's good, Jim, but it's about normal; it's about the way it's been. I know the intentions are good.

Hon Mr Wilson: Can I just answer the question? The intentions were put into law so you couldn't just leave it up to the whim of the minister; a comprehensive rewrite of the OEB; a new IMO. You know where the money is going to go. The Ontario Hydro Financial Corp, the corporation that holds the debt, has to do an annual report to Parliament. Parliament can change that any time and say we want a daily report to Parliament, if you want. Haul them before a committee. Ask them. They're transparent.

I can only say that you are better qualified than anyone in this room to absolutely say that the old way wasn't transparent. My example is always this. PBR, performance-based regulation, is the way Floyd's going to be running the OEB in terms of trying to keep distribution prices as low as possible and getting them lower than they are today, if that's possible, by comparing utilities and actually bringing in a regime that will check prices among the local distribution companies, and the regulator forcing them to become more efficient over the years. We couldn't start PBR right away because nobody could provide data from the old Ontario Hydro on how they set local utility prices. So 93 years, and there isn't anyone around or any books to tell me, "How did you set Mississauga's distribution price in the past?" Apparently they had a few cigars and went into a back room and set the prices. I was astonished by what we found at Ontario Hydro. Half the book isn't even written, because it's just too embarrassing for too many governments.

But if I could just say, you're going from an unregulated or a self-regulating monopoly, essentially—I think we'd agree that's what it was. I remember being a summer student with George McCague, chairman of Management Board at the time, when I was 17, and he was supposed to be responsible for Ontario Hydro; Management Board had it back then as the overall responsibility. I remember him saying, "Jim, Ontario Hydro is a law unto itself."

Mr Conway: All right. I've got a minute here.

Hon Mr Wilson: I think it's much more transparent than in the past.

Mr Conway: Well, I just wanted—

Hon Mr Wilson: And we are in transition, so a lot of these things you're talking about will solve themselves.

Mr Conway: I've got a question for the deputy. Listen, there are lots of problems with the past, as I say. This is a very, very sensitive and highly political commodity. I know all about the past mistakes. I'm a prayerful type, particularly when I'm around the Legislature, but it may take more than prayer and good intentions here.

To the deputy, the New York Times on the weekend ran a very troubling, long, analytical article about Enron: "Once-Mighty Enron Strains Under Scrutiny." I've got to tell you, it's one thing for the Toronto Star, maybe, to get people going at the consumer level. Anybody reading the Sunday New York Times piece about Enron would really, really have to be concerned. In fact, the article makes the point that if it gets much worse, this flagship, the single largest corporate player in electricity and natural gas trading in the United States marketplace, could, they say, become the Long-Term Capital Management case of 2001-02, and if that were to happen, that would send the electricity market into a roil, if ever one existed.

Do you have any comment and any response to this Enron story and what it might portend, particularly about volatility in the marketplace?

The Vice-Chair: Pretty short, please; time is up.

Dr Purchase: I really don't, Mr Conway. I didn't read that particular article. I know what's happening to Enron and I know that its stock price has dropped by half in the last two weeks. There's a very serious financial problem. They made some investments which look more like bets than—

Mr Conway: Well, they were playing games that would remind you of some of the old utilities, apparently.

Hon Mr Wilson: I don't have any direct dealings with Enron, so I really wouldn't know, other than that they come and talk to us once in a while, and I think they probably talked to you too.

Mr Conway: Well, they're a big player in the market, and this is going to be a private market. This is the biggest ship in the water. I read that article, and let me tell you—

The Vice-Chair: Just a point. The rotation will go to the NDP and then to the government. May we ask that we skip the NDP and now go to the Conservatives, and then we can maybe go back to the NDP at that stage. Do you want to give it up to somebody else? Do I have your approval for that, for us to skip this rotation to the Conservatives now, and then later on go back to the NDP?

Mr Wayne Wettlaufer (Kitchener Centre): I've got a question to start with.

The Vice-Chair: Are you saying yes, then, it's OK?

Interjections: Yes.

Mr Wettlaufer: Minister, a number of constituents have called in, and while I've given them an answer, I think I'd like it straight from the horse's mouth, straight from your mouth.

Hon Mr Wilson: You shouldn't comment on my size; that's not fair.

Mr Wettlaufer: Right. It has to do with the retailing and the number of competitors out there and the different deals that some of them have to offer. One, of course, has to do with the pegged price, where one of the retailers will go around and offer a pegged price on a contract basis for the next two or three or four or five years, whereas others do not have a pegged price but a fluctuating price. I don't really have any words of reassurance for these people. They picks one and takes their chances, so to speak. Do you have any advice for them?

Hon Mr Wilson: It's early days, so I tell people, "You don't have to sign. Like anything else in life, don't sign unless you feel you really understand it." But let's look at competition in the gas industry as it was opened up over the last 13 to 14 years. Certainly people who had one-year, three-year or five-year contracts as a result of gas marketers—and by the way, previous governments didn't even license these people. Anybody could go out and be a gas marketer. Now you have to give them a licence, there's a code of conduct, there's a complaint system in place, run by the Ontario Energy Board. It's much more scrutinized. We've also put fines in place so that companies can be fined. In the past, there was no regulation. You had a decade of natural gas marketers out there. But I will say that in the last few years, say you signed—certainly we saw the peak in natural gas; 40,000 Ontario customers were protected from that peak because they had signed contracts and had a fixed price. So in a free market, prices are going to go up and down.

1720

My brother-in-law lives in Barrie. He said, "Natural gas prices don't affect me. I've got a five-year contract." He probably saved money. Again, in a free market, it's hard to tell. You can talk about a Kodak moment at any moment, but I would say that a lot of people in the province—sorry, it was more than 40,000. About 40% of the gas customers in the province had these fixed contracts and they were happy. That's why we got fewer complaints when the price of natural gas shot up. I thought, "Oh, my God, I'm going to spend all my time on my feet in the Legislature about natural gas prices." My own theory is that a lot of people actually, because they had fixed contracts, are now thanking the marketers.

Some of these electricity marketers are telling us they're being phoned by customers because of all the media and California. I think we do a disservice by pretending everybody knows what's going on in California and being politicians about it. When you're setting up a new market, it's important that we as politicians—I'd say this to Mr Hampton—actually get the facts out. Spin it, but remember, you're scaring people too into something they don't have to do.

I've always stayed with Bell. It's not a plug for Bell. But they phone me every couple of months and say, "How's our service?" as a result of competition, because they're afraid I'm going to go to AT&T or Sprint or someone else.

Mr Conway: You're not home that much.

Hon Mr Wilson: That's the beauty of voicemail.

And my prices have gone down significantly. They phone me and say, "We're now 10 cents a minute." I can remember that call, and I can remember seven cents. As I said in a speech recently, long distance is damn near free now as a result of competition, and all the new call forwarding and new phones and services have come in as a result of competition. We'd still all have a rotary-dial black phone on a party line in rural Ontario and small-town Ontario if it wasn't for Bell. Remember the colour of phones? I mean, this is in my lifetime. When Radio Shack started selling phones and you could actually go buy a phone and hook it up yourself, suddenly all these services started coming in. That's credit to the federal government of Mr Conway's stripe, who started to open up that telecommunications market.

Gas has been relatively good in real prices. It's lower today than it was in the early 1980s as a result of competition, even after the spike, and I think that's still true. We expect the same in electricity.

The biggest message I think you can give to people is say, "Be informed. If you don't feel informed, your local utility, like Bell, the local monopoly, will continue to look after you."

Mr Wettlaufer: So it's the same as if someone is going out to invest in a GIC or in the stock market. There's some risk that the prices are going to go up or go down.

Hon Mr Wilson: Yes. In my opinion, until there's a lot of choice out there—and this is the early days. As I said, 50 marketers and retailers have been licensed and several more are pending. Be careful. Where the jobs are created, in the businesses and the mom-and-pop shops, if you use a lot of electricity you might want to talk to three or four marketers and your local utility and have that round table, just like you would if you were looking for another supplier in your business. Take the same prudence with this commodity as you would with everything else supplying your business.

I suspect, as we saw in the telecom business, that a lot of people will shop around in the early days and then it will settle down to a fairly stable situation. I was more convinced to get into this thing, when I first became energy minister, when the large users—I can remember the pulp and paper in the north, Bowater and all them, coming in and saying, "When can we get the same price of electricity as the province of Quebec? When are you going to allow me to run a hydro line from Quebec to my plant?" We had gone up and we'd killed jobs and these plants were really worried. They, in spite of the fact that we had to increase prices this year and a lot of the industrials had a larger increase than residential—and that was strictly nothing to do with so-called deregulation or competition; it was the auditor's report in January saying that at today's rates, after an eight-year freeze, you're not paying your debt off properly, or keeping up with the interest payments, as I like to say. So we were forced into that situation.

But the fact of the matter is that all those companies—I've not received a letter saying, "Stop," in spite of them trying to bringing them up in the House all the time. I talk to those presidents and vice-presidents and power managers from to time, whenever they want to talk, and they're all saying, "Competition is still our best guarantee of the lowest possible price." And these are the big users.

Interjection.

Hon Mr Wilson: That's what they're saying.

Mr O'Toole: Thank you, Minister. I appreciate that. In the limited time I have, I have about three questions. They're not connected, just sort of random, I suppose.

One is the role of moving the Ontario Energy Board to a clearer model as a self-funded organization. I think of the TSSA and the Ontario Securities Commission, where it's a user fee. I think their budget's around $18 million or something like that; I think I read their annual report. I know there's a letter on file from the Toronto Board of Trade stating their position to you, as well. I'd like you to respond to that, as the first one. I really think there's some merit to the case of allowing them—as I think the TSSA has demonstrated, if rates are related to activity, whether it's decisions or resources needed at that board level, that the industry use that and not receive a subsidy in some way from the government. I'd pass the letter on, if you want it. It's dated September 10.

The other one is a totally different question but it deals with something that each of us at the local municipality have had to deal with. In my case it's Veridian, which I've supported from the beginning. It's really a share capital thing; I think municipalities have a share in it as the way they financed it. Now they're paying a dividend to the municipalities. Municipalities are getting a dividend annually from these Veridians and other types of incorporated local utilities. I have to explain to them that it's really revenue replacing tax. In fact, it's a tax. If they've got a profit, that is a dividend. Clearly they're making money and it's a tax, the way I look at it. Yet we gave them those tools at the municipal level. I guess the way it works, in accordance with the government's plan of restructuring electricity, municipalities receive the assets of the local electric utility and municipalities decide to profit from these investments by taking ownership of the utility in the form of interest-bearing loans. Maybe you could respond to that, as we have to explain how come the local utility is writing a cheque for $200,000 or whatever, which represents revenue to the municipality and their revenue is basically tax or user fees of some sort. That's number two.

Number 3: I think the best summary that Mr Purchase and others give—in the public accounts there's a really good summary of all of the debt and equity and stranded debt issues. You pretty well summarized it, but for Mr Conway and others it's an extremely good—I'm still concerned there about where the debt retirement charge actually fits in. I know there's an interest charge paid annually from revenues from OPG or Hydro One; it goes in to pay off the debt that we borrowed on their behalf and they pay the interest, whatever, and the PILs, the payments in lieu. But the one I'm really still quite in the fog on is the debt retirement. That's the $19.7 billion stranded. Nobody's got the assets; it's pure debt. And one more point on that pure debt—I support everything you've said, Minister. It means we were artificially subsidizing electricity rates for the last 10 or 15 years.

Mr Conway: You've got that right.

Mr O'Toole: That's clearly what it is. We were just pouring more money in than it had the ability to deal with. We had the Macdonald commission and all that dealing with it. Is there anything in all of those revenue notes that you gave us that is clearly being directed—I know if OPG sells assets that goes against the debt. I understand that that's how it works. It doesn't come into revenue as a revenue piece for the government; it goes into the debt retirement somehow. But how are we going to deal with that in terms of whether it's going to be in the rates? Howard's big question here is, are the rates going to stay stable? Yes, but what if there's this little tariff on the grid and the rates go up? They're going to say, "The rates didn't go up, it was the grid that went up," this grid charge or whatever they're going to call it. I'm confident that's how they're going to deal with it. They're going to slip in a little 7% on the bill and it's going to say, "This is debt retirement," and we're going to say, "Oh, no, the rates didn't go up. That has to do with the debt." I think I've made my point there.

Interjection.

Mr O'Toole: Yes, those are three points, Jim.

Hon Mr Wilson: Three? You're too smart.

Mr O'Toole: The self-governing thing for the energy board, Floyd.

Hon Mr Wilson: Right; the municipalities and DRC.

Mr O'Toole: Yes.

Hon Mr Wilson: OK, I'll try and be quick, and I usually am.

1730

I am familiar with the Board of Trade letter, and most of their points have been dealt with in that it is an arm's-length body. Policy is set by government, but the regulator has to do that.

Mr O'Toole: It still would be.

Hon Mr Wilson: It still would be. The issue is not one that we've been prepared to deal with as a government. We badly underpay our commissioners. Really, to be a good member of the OEB, you need, in my opinion, a professional background—lawyer, accountant. We're really short of accountants. I'm just going to be very frank with you. The Board of Trade at this time, in September, were around to see all of us, the various people, saying, "We should move them to a different type of agency," so they'd—they have it in here as being able to resource themselves properly. That means they need a raise. That's the issue.

Mr O'Toole: They need better people.

Hon Mr Wilson: Well, I think their worry is—they're not critical now. Remember, the gas industry has dealt with the OEB for a lot of years, all through their deregulation or whatever—actually, re-regulation is the proper term in this jurisdiction. You do get a lot of positives there, the people who have actually dealt with it. I think the Board of Trade is saying, "Now that a lot of our members are going to have deal with the OEB," because we're finally regulating parts of the electricity industry in the province and the regulator has some teeth—remember, the OEB in the past just had oversight. I think in 1992 or 1993—I forget the year; mid-1990s somewhere; I can't remember the story exactly, I used to know it well—the OEB did do rate hearings and Hydro just ignored it; they raised the rates anyway. Finally, Bob Rae got so mad in 1993 he said, "No, the government's ordering it now," so he pleaded with the board to freeze rates. Again, it's a whole area that's going to be regulated in a more transparent way.

But that is the issue with the energy board, and I have some sympathy for that. Under the current system, it's hard to do any more on their compensation because they're getting paid the same as many other boards. To be perfectly frank, I think that's the real issue.

The other thing is about independence. There's no one more independent than Floyd Laughren, and he makes that clear every time we have a meeting. In fact, he jokes when we're at the same reception or something together that we can't be seen in the same room. He takes the sanctity of that job very seriously. He knows he's responsible first to the people of Ontario as the regulator and he's there to protect consumers and to help establish the retail market in particular at this time. He's doing a good job, and the law is set up that they are independent.

Municipalities forced into these rates of return: the message that I think most municipalities and the media chose to ignore, and they were free to do so, was that they could have set up non-profit corporations too. No one forced them into what many of them took. All I can say is that it's—

Mr Conway: Say that again?

Hon Mr Wilson: No, I've said it in the House a hundred times. There's nothing in the law—

Mr Conway: I must have missed it.

Hon Mr Wilson: In fact, I was out there, Sean—I wrote every mayor at one point and told them their options. We did 18 seminars in the first year; it would have been 1999. They went around; I attended three of them because they were in my local area. I can remember going to the one in Alliston; 40 different municipalities or more represented. Mayors were there in those days, wondering what it was all about, and we explained Corporation 101. Your staff went to one of these, I think. You remember our slides on Corporation 101? "What's a corporation? It can be not-for-profit or it can be for profit. If it's for profit, the regulator is going to set your rate of return."

Anyway, the short story on rates is that it's normal to have a debt-equity ratio in a company. You know that well; you worked for GM for years. With normal commercial rates, you should be able to service that debt on a regular basis and keep your shareholders happy.

Where we would be concerned is if Toronto, for example—if Mel went in and took another $200 million out and it would automatically raise their rate of return above the 9.88 set by the OEB. The OEB would have something to say about that and he would not necessarily be free to do that. But he is free to go in and have a normal commercial company.

Remember, for 40 years, I'm told—it goes back that far—municipalities not only have been asked to run like a business, but they've asked, "Can we get into some businesses? We want to prove to you that we're efficient." That was a motion on the books, I'm told, decades ago at AMO, and I used to hear it all the time. We changed the Municipal Act, when we did the Energy Competition Act, 1998, for the first time to allow municipalities into a business.

I think we're all watching them very carefully. They are running the monopoly business and they've been given that as a—

Mr O'Toole: Source of revenue.

Hon Mr Wilson: Yeah, a source of revenue to give them some stability. Also, because they have that wires business, which is a gift, or a privilege, is the word I'm looking for—you have the privilege of running the monopoly business in your own area. But some of them are getting into other businesses which don't concern us. That should concern the municipal taxpayer, though, or ratepayer. If they lose money on their telecom business, they can't cross-subsidize from the monopoly business. It's a completely separate business from retail and others.

The Vice-Chair: Because we're out of time again, we're going back to the NDP for one last round of 10 minutes.

Mr Michael Prue (Beaches-East York): I have one question, and I'm sure Howard will be here, because he really is the one to ask the questions.

This may not be directly in your ministry, but the statement you made about the fixed contracts intrigued me no end, about business people and I guess ordinary homeowners, half of them being in a fixed contract protecting their interests. I'll just ask the question and then it's right over to Howard. I'm very curious about that because that's probably true. It's absolutely true that the people who got in there were good business people and protected their interests. But we have a situation, in Toronto especially and I think in other parts of the province as well, where people who were poor business people, who did not tie themselves in and who allowed the spike, are actually benefiting hugely. I'm speaking about landlords. Under the Tenant Protection Act, when you go and say, "We have this huge spike," you actually get the money back. Because they were poor business people, the tenants in their building pay and continue to pay forever. I'm wondering, how do you justify or how do you think that is at all fair?

Hon Mr Wilson: Thank you, Mr Prue. It's not my area, but the government has indicated that we're either entering or we've already started consultations on the rent control act. Remember, we're using the same laws and the same formula that were in place under the Liberals and the NDP. But we are going out there on behalf of tenants and saying, particularly energy costs, because of the price, "Should those be permanent?" The formula we're using, which the Liberals invented and the NDP kept the same formula and we have the same formula, is permanent. It's the same with carpet. You buy a new carpet and it's a permanent increase. The carpet eventually gets paid for through the increase. Why do people have to keep paying for the same carpet over and over?—all kinds of things like that.

But the energy has piqued our interest, and on behalf of tenants that's something we're looking at. The minister said at our policy conference on the weekend, to the 1,200 or 1,300 people there, that he had started consultations on that. So as energy minister, it does concern me. I've talked to them, and maybe there's something we can do under that act, which is municipal affairs.

You shouldn't have to pay for the increase forever and ever, but that's just the way the formula was. I can remember—I was here—it was hailed as a great thing at the time, but times have changed.

Mr Prue: The spike only lasted for two, three months. The people have the bills for those two, three months. Even though the costs have gone down enormously, they continue to pay. That was my question.

Mr Hampton: I believe you talked earlier about Pennsylvania. This is what the Consumer Federation of America has to say about Pennsylvania. It says that residential rates in Pennsylvania remain about 25% above the states that have not restructured. They say in the report that Pennsylvania was the poster child of open electricity markets. "Regulators originally mandated temporary rate reductions and price caps on residential rates but the temporary reductions did not last very long. For a while, industrial ratepayers enjoyed larger rate reductions" for a period of time, but those benefits have gone as well, and they point out that in fact rates are now going up in Pennsylvania. So you would disagree with that report from the American consumer federation?

1740

Hon Mr Wilson: Just no comment at this time, because I'm having a mind block with respect to current prices in Pennsylvania. We're trying to find the chart here. We do keep track of prices on a regular basis.

Mr Conway: It sounds right to me. The Pennsylvania prices were above-average. I think Howard's right.

Hon Mr Wilson: I don't know. It's a relatively—is this the September price?

Mr Hampton: The interesting thing is that the consumer federation says that reserve margins of 30%—

Hon Mr Wilson: The latest price I have in September isn't out of line at all. It has gone up and down. It was US$23 per megawatt-hour, peak prices, and that's your highest, in Pennsylvania in April 1998; it went up to $45 per megawatt-hour in January 2001; April 2001, $46; July 2001, $51; and September 2001, $32. So this would indicate that it's gone down.

Mr Hampton: The point they make in this report is that what people were promised in terms of lower prices has not been the experience, that in fact prices haven't gone down and in some cases they've gone up.

What's interesting about this report is that they actually agree with the people at TD Securities. The American consumer federation says that if you're going to avoid price manipulation in electricity markets, you have to have a reserve generation margin of 30%. Anything less than 30% allows the generators to remove generation from the market and thereby force up the price. The interesting thing is that the consumer federation in the United States actually agrees with TD Securities. So I want to ask you again, what reserve margin is the Ministry of Energy shooting for in Ontario?

Hon Mr Wilson: Just a comment. Apparently that report is what you'd expect from the Consumer Federation of America, which is not a body I've heard of too often. It makes its cases on daily spot prices and picks the highest prices to make the worst possible cases, according to the briefing note I have. That's the department's view. In fact, one day they picked prices that had quadrupled because of a spike, and the wording of the report suggests that was a permanent increase. I bet if they did the report now that natural gas prices have shot way down, I bet if I got an update—I'm just guessing here—you might find that prices are probably lower. So the note here is caution. This report takes a snapshot and picks the worst-case scenarios on a spot price. You have to average over a period of time, as you know, on a spot market to get the true price.

Mr Hampton: They only cite as their references the Office of Consumer Advocate, the National Energy Policy Development Group—

Hon Mr Wilson: Sure, that's where you get the price information.

Mr Hampton: —the Energy Information Administration. If you want to doubt them, that's fine. But what I wanted to ask you is, they agree—

Hon Mr Wilson: That's where they got their information. That's not where they got their opinion.

Mr Hampton: They agree with TD Securities that if you're going to avoid market manipulation, you need to have a margin of 30%, in other words, 30% more generation than estimated peak demand.

Hon Mr Wilson: I've never heard of such a stupid thing. Why would you want to have 30% and extra billions of dollars in cost sitting around doing nothing? That's not what the US regulator requires, any more than we do. We have a much more reasonable approach. Standard acceptance is 15% to 18%. That's what we have. Any more than that and you'd have excess capacity that taxpayers would be paying for under the old system and absolutely wasting their money. You'd have basically a mothballed plant that was there just to satisfy some arbitrary figure. In a 100-year history, 15% has been the experience. Even in our four days when we had to buy power from the States this summer, we just dipped into the 15% reserve. So even in our highest, worst-case scenario, we still had plenty of reserve left if there was a disaster or something.

I would disagree. I think it's stupid, it's bogus. Why you'd want to have hundreds of millions, if not billions, of dollars worth of wasted money out there in a system you may never call upon is just stupid. That's all I can say about it.

The Vice-Chair: You have about five more minutes.

Mr Hampton: I find it interesting that you say the analysts at both TD Securities and the consumers federation of the United States, which has been around for 30 years, are stupid, according to you.

Hon Mr Wilson: You might consider that TD Securities probably provides the money for the plants. They've got two interests here. One is financing these projects—

Mr Hampton: They're very clear about their interests. They're saying that when you have margins of less than 30%, if you're an international energy corporation, you should go out there and buy up as many generating stations as you can, because with margins at less than 30% you can easily create the kind of energy shortage that was created in California and then you can game the market. That's what well-renowned economists around the United States are saying—

Hon Mr Wilson: No, they're not.

Mr Hampton: —that corporations were able to game the market in California.

Hon Mr Wilson: No, come on. Mr Hampton, in California it was the government that didn't give approval for the new plants—13 years and no significant new approvals. I was there. I talked to the politicians. I've been there three times. They all tell you the same story. No matter what stripe, Democrat or Republican, they agree there was a supply problem—plus they had natural gas spike on them, but a supply problem was in place before that—and their reserve margin was under 6%. The fact of the matter is that they went below the industry standard, way below, and for environmental reasons, as the Governor told me, it wasn't just "not in my backyard," it was "not in anybody's backyard." You couldn't build a plant—certainly nothing was built in the last eight years—yet they encourage Silicon Valley and all these electricity-intensive industries to come in and manufacture and didn't build any power plants for them.

That was the old government three-way monopoly that did that. You cannot blame the private sector. The private sector issued report after report saying, "We must build more plants. Are you going to do it, government, or are we going to do it?"

Mr Hampton: So you're saying that a margin of 15% is adequate for the purposes of Ontario?

Hon Mr Wilson: Well, 15% to 18%. It fluctuates a little bit, but that has served us well even on our greatest-demand days. As I said, I'm not sure you want to have a plant that isn't running that you have to pay for. You've got to be sensible about these things.

Mr Hampton: So you're prepared that on the verge of going to an open market, a 15% to 18% margin in terms of supply of generation will protect consumers of Ontario from the market being gamed, it will provide them with stability and predictability of supply and it will ensure that they will not be left open to price spikes?

Hon Mr Wilson: Obviously, no matter who's in government, it's in our interest to have a safe, reliable, best-price electricity system. If somebody—I would say other than this association which has popped up with all its advice—recommends to us that we should look at it, I guess we would, but I've never received any advice except in this one report. We talk to TD frequently and to all the other financial advisers. By the way, we're given lots of free advice too. I'm not an expert on margins, but from what I'm told, the system is adequate in terms of its margin there now.

In the future, by the way, this won't be government arbitrarily deciding this. That's the good news. Independent regulators, for the first time—if the IMO doesn't feel it's got enough safety or margin built in there, that's what it's there for.

I wanted to say to Mr Conway that actually almost everything he mentioned was a problem with government. In fact, he made the case why government shouldn't try and run these things. Let independent people who do it as a full-time job and have the expertise and need to compete for your business, which is the best incentive out there—you're not a captive customer any more—make these decisions in the future. That would be my view and that's the direction we're headed.

Mr Hampton: I just want to take you back to TD Securities. Their logic is pretty clear. They're saying that with margins of less than 30%, it means prices will go up. If prices go up, that will be good for investors—investors will make money—but they're also very clear that it won't be very good for consumers. Consumers will pay more. So you're saying that their advice is wrong?

The Vice-Chair: I have to adjourn it now. The committee stands adjourned until tomorrow afternoon.

The committee adjourned at 1750.

CONTENTS

Tuesday 30 October 2001

STANDING COMMITTEE ON ESTIMATES

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Vice-Chair / Vice-Président
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