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Tuesday 6 November 2001

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Mardi 6 novembre 2001

**Standing committee on
estimates**

Ministry of Energy,
Science and Technology

**Comité permanent des
budgets des dépenses**

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

Chair: Gerard Kennedy
Clerk: Susan Sourial

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LEGISLATIVE ASSEMBLY OF ONTARIO

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

STANDING COMMITTEE ON
ESTIMATESCOMITÉ PERMANENT DES
BUDGETS DES DÉPENSES

Tuesday 6 November 2001

Mardi 6 novembre 2001

The committee met at 1612 in room 228.

MINISTRY OF ENERGY,
SCIENCE AND TECHNOLOGY

The Chair (Mr Gerard Kennedy): If we're prepared to start, the first order of business we want to discuss is a matter for the committee. The ministry has two hours and 20 minutes. We don't have, because of the developments in the House today, sufficient time to complete that today, so I'll put a couple of options before the committee.

One is unanimous consent to stand down the final half-hour in order to allow this ministry to be completed and economic affairs to come in. Alternately, we could continue and have the ministry come back for what would be half an hour.

Another alternative that has been done by this committee before is that sometimes the government side stands down some of its time and thereby allows the ministry not to have to come back.

I'm going to open that very briefly for discussion. If there's some consensus, I'd hope for some very limited discussion about these options to help make us perhaps more efficient tomorrow.

Mr Steve Peters (Elgin-Middlesex-London): I would say we're prepared to co-operate. The last half-hour is generally an opportunity for the minister to wrap up. If he's prepared to forgo that and if we can come to some consensus among ourselves—

The Chair: I think in this case, Mr Peters, we're looking at each of the parties in rotation perhaps dividing that half-hour. Is that where we're headed? What we're looking at is we'd have to adjust the rotations for each of the parties in order to make this work. We have about 100 minutes for the parties in normal 20-minute rotations, and then five minutes left over that would be divided up between the three parties. So that's what we're looking at. If each of the parties would then agree to take a shorter session, probably the last session would be roughly half time. So that's what we're asking.

Mr Peters: As long as in the end the time has been split up equally, I'm certainly prepared to agree with that.

Mr Wayne Wettlaufer (Kitchener Centre): I think maybe we would just wrap it up at the end of today and not have the minister come back for that last half-hour. I'd like to make that recommendation.

The Chair: All right. I don't have the third party here, and I apologize to them, but I think, subject to their variance, we'll go forward with that, and I'll check with them when they come back.

We also now, I believe, have a motion to change the rotations. Is that correct?

Mr Jerry J. Ouellette (Oshawa): I move a motion that at this time we exchange speaking positions with the third party, just until they return, because of the lateness of the start.

The Chair: I'll put that to the committee. All in favour? None opposed. We'll do that and we'll start with the government party.

Mr Norm Miller (Parry Sound-Muskoka): Last week, I had asked about the ITER project and the significance of that for Ontario. I understand it's a huge project that could be of great benefit to this province. I was wondering if you could continue to tell us some more about that project. You didn't have much time last week to talk about it, so perhaps you could fill us in on the project and what Ontario is doing to try to get it.

Hon Jim Wilson (Minister of Energy, Science and Technology): Sure. Thank you for the opportunity to continue the thoughts I had last week on it. The international ITER fusion energy project would be the biggest advance forward in several centuries with respect to the production of electricity. It's a 30-year research project with the hope that some day fusion will become a viable energy source for the future. We've committed as a government \$10 million each year over the 30 years of the project, plus significant money and resources from Ontario Power Generation. I might ask the deputy to expand on that and perhaps give you an update on how we're doing with respect to the worldwide bid. Do you want to comment on that?

Dr Bryne Purchase: Yes, thank you, Minister.

The ITER project, as the minister mentioned, is an international project. Currently, the European Union is participating. France, I believe, is the principal possible alternative site for the ITER reactor. Japan is also participating, along with Russia. The United States was a participant and dropped out, and now there is a chance that the US will rejoin, which is quite advantageous from our point of view; that is to say, in siting this project in Ontario at Clarington. The minister and I visited MIT, where we met with some of the world's foremost fusion energy scientists. They were very keen on Ontario as a

site for this international project, so we think, if the US gets re-engaged in these negotiations, that this will enhance our bid.

The project is a \$12-billion project, with a huge construction phase initially which would create 600 jobs each year. Roughly 250 scientists would be working on-site. This, of course, would be an enormous concentration of scientific talent in a single location and would go a long way to serving not only ultimately perhaps our long-run energy interests and needs, but our immediate innovation objective as well in terms of having that many scientists and engineers and research students and so forth located at Clarington.

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Clarington itself is rather interesting because it's a perfect site, really, and it is far and away the preferred site of the ones we know of that are currently in the competition; at least from our perspective it is. But certainly it has a lot of natural advantages. It has a deep-water port. The Tokamak reactor itself, the machine in which the reaction takes place, will be largely imported. It has to be assembled in other countries and then will be brought in pieces into our site. In addition, our site has an ample supply of electricity, which is essential to get this reaction going. We have as well tritium, which is a by-product, as you know, of the Candu reactor. We have, through OPG, committed to supply tritium free of charge to this experimental reactor. So it's a perfect site, with all the prior clearances and approvals needed for such a site, the deep-water port, the tritium availability.

Also, heavy water, I believe, is an important part, because it's a hydrogen atom from the tritium as well as the heavy water which are fused. So all of these things add up to a terrific economic opportunity for the province of Ontario, should we land this important project.

Mr Miller: Thank you, Deputy. What countries are involved in that project?

Dr Purhase: The principal countries currently are France, Japan and Russia. France is participating through the European Community, I believe. As I say, there is a very good chance that the United States will re-enter. Canada is not formally a member of ITER, but we are putting forward our site as a location for this project.

Hon Mr Wilson: Your question is timely, because this Thursday we host a reception and dinner for the ITER international committee, a good opportunity once again to plug Ontario as a preferred site.

Mr Miller: It certainly sounds like the Clarington site has a lot of natural assets, and it would be great to get that \$12-billion project.

Hon Mr Wilson: It's got a good MPP out there too, if I recall the last time.

Mr Miller: I have one question to do with the actual estimates. On page 8, just to help me understand the budget for the ministry, it looks like the budget amount for 2001-02 is \$200,448,252. The actual money spent, if I'm reading this correctly, is \$649,231,845. Maybe someone could just explain the number. It seems from one year to the next it's changing dramatically.

Hon Mr Wilson: I'll get the assistant deputy minister, who does our finances, to explain it, but it has a lot to do with the way the programs operate and the partnership funding that we're involved in.

Ms Judy Hubert: The ministry puts a significant emphasis on leveraging funds from our program partners. This takes time on behalf of the partners in obtaining the private sector money. We do not flow the ministry money until the organization has obtained the private sector funds. We want to make sure that the funds are spent in the best manner possible and that the partners' money is committed and on hand.

What happens is that our commitments are based on approved proposals that are submitted. Following approval, there is a contract negotiation process that is undertaken with all the parties, and the applicant institutions are required to provide proof that they have the private sector commitment. That, in turn, takes time to have it organized, and the government ensures that it does not flow the money to these institutions until the partnership contributions are in place. Contracts are then monitored throughout their lifetime to ensure partner contributions are made. If anything needs to be done, corrective action is then undertaken.

Mr Miller: Do you have the numbers from page 8, just to go through that and just explain it a bit to me, please?

Ms Hubert: The money is related to a one-time Ontario innovation fund amount of \$500 million. So that's really the big amount of money there. Then the other part is \$50 million for the Ontario Cancer Research Network, which was not spent in one year; instead, this was profiled and calendarized over the next three to four years.

Mr Miller: Thank you. I'm sure some others have questions, so I'll let them go.

Mr Ouellette: I have a question in regard to natural gas production. According to the Alberta energy board, natural gas production will peak by the year 2003 and decline by 2% for the following five years. The US energy board claims that by 2015 there will be a 45% increase in demand for natural gas, yet only a 2% increase in supply. The new pipeline from the north should only replace the current demands, according to what's showing statistically—or the information that's passed on to us—and should not come on-line until 2008 or 2010. How are we going to handle the changes in natural gas, being that they had a major price increase in the past year, and what do you expect the future is going to be for natural gas?

Hon Mr Wilson: I think it was brought to my attention by some of our members—and perhaps you could enlighten me a little further—that there was some evidence before one of the legislative committees recently. When it was suggested by some people that we should convert our fossil fuel or coal-fired generating stations overnight to natural gas, an expert from the natural gas industry, whose name escapes me at the moment, asked the legislative committee: "Where would you get the gas

from? We couldn't supply that amount of gas should it be called upon."

What were you looking for? A forecast of gas pricing?

Mr Ouellette: What's going to happen with natural gas? I'm sure all the other members receive a lot of calls, as we do, with regard to the price increase. What are we expecting in the future if supply and demand are not met?

Hon Mr Wilson: We'll give you our forecast as best we can at this point.

Ms Hubert: There are two other sources of gas that are expected to be coming on stream. There is the option of obtaining liquefied natural gas. That is expected to increase—

Mr Ouellette: Is that gas hydrates?

Ms Hubert: It's LNG, liquid natural gas. Then, we certainly expect more exploration. In addition, we have some forecast from Canadian Enerdata Ltd in which they say the annual Alberta Empress border price for 2003 would be \$3.72 per gigajoule, \$3.54 in 2004 and \$3.37 in 2005.

Mr Ouellette: Are we on line for that?

Ms Hubert: I'm sorry?

Mr Ouellette: Is that what we're expecting, or is that just what we're being told by the industry?

Ms Hubert: That's what Canadian Enerdata forecasting company is proposing.

Mr Ouellette: What did they forecast last year? Did they forecast those increases, or do we know?

Mr Rick Jennings: I guess what has happened with natural gas prices in the last year or so has illustrated how responsive both demand and supply are. When the price went up significantly over the last year, there were demand-side responses. Industry switched to other fuels. You had the great increase in exploration, so there is now the expectation that more gas will come on-line in western Canada.

There are, as you mentioned, the Arctic gas pipelines. There's the potential for both the Mackenzie delta on the Canadian side and the Arctic. There are also potentially more reserves in the Gulf of Mexico. At a certain price, more of this will come on.

I guess in the US, when people were looking at what the price would be, at some price—and it's not much higher than current prices—you could bring in liquefied natural gas from places like Algeria and Venezuela, where currently the gas is just flared because there's no use for it.

There is certainly going to be an expected increase in demand. There will be some offsetting. If the price goes up too high, some of that demand will go off. But what's basically seen is a potentially huge supply of gas that currently isn't being used elsewhere. That would happen in the US if prices reach—lower than they were last year.

Mr Ouellette: OK. Mr O'Toole has a question if there's time.

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Mr John O'Toole (Durham): I have a quick question. I hope it isn't a complicated one; I've kind of posed it before. In the May 2001 financial statement, they

talked about creating the Ontario EFC fund, and they talked about stranded debt. First of all, I want to be on the record as saying—I think there's about \$19.7 billion of stranded debt—I guess if they sell off assets, coal or whatever kind of assets as they downsize generation at OPG, that revenue is committed to pay down that stranded piece. That's the first part.

The second part is, it's my understanding that the OEFC debt will be retired from within the electrical sector, meaning on the rate somehow. Has that been talked about? What I'm saying is, when the market opens in May this coming year, are we going to see some kind of debt retirement rate on there? I'm trying to say, in a communications sense, that we've got the real cost of generation, we've got the transmission cost, which will be in there somehow, and then we're going to have this other rate on there. Is it not right that that rate is not on the bills today, and in the future I can expect to see my bill at the house go up, which isn't tied essentially to the cost of—Mr Ouellette's question—whether it's natural gas or electricity? I want to see that, and is there a number? Is it going to be a rate on consumption? How are they going to retire that debt? It is going to be paid by the users.

Hon Mr Wilson: Yes. In fact, Mr O'Toole, it's a good point. That was reiterated in the papers that were tabled by the finance minister this afternoon. You'll see on the—

Mr O'Toole: I haven't had a chance to look at them, but I'm interested in that.

Hon Mr Wilson: On the quarterly update to September 30, 2000, just to reiterate policy, you'll see there's a stranded debt service charge on the books. I'll just read it so everybody knows. They're reporting on the year 2000-01 and fiscal 2001-02. It gives a number for the stranded debt, and it says: "Reflects the estimated excess of revenue over expenditure of the Ontario Electricity Financial Corp. Consistent with the principles of electricity restructuring, OEFC debt is to be recovered from ratepayers not taxpayers." So it's reiterated today, and that's an important principle as we move forward.

Bundled in your rate today—the price of electricity coming into your home or business—is a debt repayment charge, a debt servicing charge. It hasn't been sufficient, given that we've had an almost eight-year freeze, up until this year, on overall average rates in the electricity sector. You'll note that it really hasn't been sufficient to knock down that debt.

The deputy will explain—maybe a little simpler than last time—how we went from the \$38-billion overall debt and set up the new company. You're very familiar with it, but of course a lot of people aren't, and I'm astounded how many people don't care too. I had lunch with a group of constituents in my riding on Friday. They were seniors. Through no fault of their own, they don't know anything about any of this stuff and can't believe they have to pay off this debt that's been incurred in the electricity sector. One of the regrets I have in four years as minister is that we haven't talked about it enough. We

all knew about the provincial deficit, and we talked about that a lot, and I think most people are familiar with the huge debt the province itself has. People are less familiar with the problems that were racked up during the years of the monopoly in the electricity sector.

I'll just get the deputy to talk about the debt retirement charge, its purpose. The Ministry of Finance did set a rate earlier this year and put that out via a press release to the public.

Finally, I'll say you are right: in terms of any proceeds of sales, it is the policy of the government, and indeed the law of the land at the moment, through the Energy Competition Act, 1998, that we apply the proceeds of those assets toward paying down that debt. The commitment of the government is, as we save money on that debt and bring it down, that we pass those savings on dollar for dollar, to consumers so eventually we can see our way out of the quagmire.

Deputy?

Dr Purchase: As I was mentioning last time, we have this large lump of debt that has to be serviced, and we have various revenue streams going in to service that debt. Those revenue streams really are generated from the successor utilities and the assets that are there. The question of how much of the debt retirement charge is necessary is a function of how valuable those assets are. If those assets turned out to be extremely valuable, theoretically including the tax payments made from those assets, then there could be, in theory at least, no—the term is—residual stranded debt. If, however, they are not as valuable, that's what the debt retirement charge was meant to cover off. There's a sliver—

The Chair: Dr Purchase, I'm sorry to interrupt. I hope we'll have time to come back to that in another round, but the time is up for this round of the government caucus. Notwithstanding the earlier motion, the third party is not present, so with the consent of committee we'll continue with the official opposition and we'll see; hopefully the third party will be here.

Mr Sean G. Conway (Renfrew-Nipissing-Pembroke): I appreciate my friend O'Toole drawing our attention to the question of that debt. I think it's a very important subject, and the minister makes a good point about the general lack of public understanding. As we say in parliament, with all due respect, it's an important issue. As I said the other day, the difficulty I have is that I'm disinclined to believe the biggest player on the ice when he/she starts talking to me about that situation, because we have a complete conflict of interest—and it would be no different if I were in your chair.

I think it's a very good question, and here's a place where I really do want some independent evaluation. I suspect we will get some from the auditor. It's not an easy problem, and I have kind of an uneasy feeling that there's more going on underneath the waterline than I could probably imagine at this point. It's a very important and timely subject and it is something we're going to have to come to terms with. But the government, and through the government, the Legislature—we're not

innocent third parties to this; we're major players with key, vital financial interests. So I think anybody looking at us might be a little suspicious about how we present the data.

Minister, there are two or three things I want to pick up from the press, ironically. I see in the southern Ontario edition of the *Globe and Mail*—it wasn't in our edition of the *Globe and Mail*—Martin Mittelstaedt had an article on Saturday, and I wanted to raise just a couple of follow-up questions. I'm sure the minister and the deputy will know of what I speak. "Deregulation Cost Unknown" is the headline. It was on page A11 of the southern Ontario edition of the *Globe and Mail*. I looked for it in our edition and couldn't find it, so I was kind of surprised when people were talking about it on Monday.

Minister, just a couple of quick points: Mittelstaedt is reporting that the Ontario Ministry of Energy has undertaken no studies to analyze how the breakup of the hydro monopoly and the so-called deregulation of the electricity market will affect power rates paid by consumers. Is that a fair statement?

Hon Mr Wilson: I think my staff who were asked that question by Mr Mittelstaedt were a little too technical in their response. We're always so careful to ensure people that the regulators are at arm's length. I would have answered it, "Yes, the government has done studies through the regulators, and there was no need for the ministry itself to repeat those studies."

Mr Conway: That was the second question. I noticed that later in the article there is a reference that says there were studies done by the energy board. I'm just wondering, could the minister commit to tabling the studies that are referred to there, so that we're all aware of what has been done, and by whom?

Hon Mr Wilson: Sure, if the clerk wants to photocopy those. They're available on the OEB's Web site also.

Mr Conway: I just want to be clear that we've got the right information.

Hon Mr Wilson: Mr Conway, obviously studies had to be done. It's a sad article in terms of—I don't know; Martin was just muckraking a bit. Studies had to be done in order for the regulator to set the standard supply price, which is now in our pamphlet that is being delivered to every home—4.3 cents and the range that we show. So obviously studies were done. Maybe that's why it didn't appear in the next edition of the paper. Perhaps by that time they had corrected themselves.

Mr Conway: Then to a second article—I don't know whether anyone on the panel happened to read the Sunday New York Times, but there was an article by Timothy Egan entitled, "Once braced for a power shortage, California now finds itself with a surplus." Did anybody read that or see it?

Hon Mr Wilson: I didn't see it.

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Mr Conway: I'm just going to pick up a couple of points, and I would recommend it to your attention because, Minister, I have said before and I repeat now

that I agree with you that Ontario is not California. I think there are some significant differences between the two jurisdictions. But I am struck by this article and I'm going to mention a couple of things. There was a very good piece in the Washington Post done in early September on this whole question of deregulation in the United States, and the deputy might be particularly interested. It looks at the American experience in the summer of 2001, not just in California but some of the other jurisdictions.

It's a series of articles in the Washington Post but they summarize some of the main issues. I was touching on this the other day. One of the points they make very clear is that electricity is not a commodity *comme les autres*; it's a very idiosyncratic commodity. As our friend the deputy would say, it's inelastic in important ways that cause the planners and the politicians some very real problems.

They go on in that article to talk about the need for really rigorous refereeing. So with that as a background, I was just struck by a couple of the observations that were made in the Times article on the weekend. Let me just read some of this.

I'm quoting directly from this article. "At the core of the California problem is this mystery: how could the state" of California "use less electricity this year and last and still pay \$35 billion more than it did in 1999?" I can't imagine being a state representative in California and trying to explain that. There are explanations, but they are going to use less electricity this year than they did two years ago and last year and they're going to pay \$35 billion more for the privilege.

According to the president of the California Public Utilities Commission, records show that on some days during the worst of the power troubles in California in the spring of 2001, up to one third of the electricity that should have been available to the consumers of electricity in California was taken off-line, thereby creating an artificial shortage that drove up prices. That's from a woman named Loretta Lynch, president of the California Public Utilities Commission, quoting her directly. "We had plenty of electric power available," Ms Lynch said. "But we didn't have a cop on the beat." The cop she is talking about here is FERC, the national regulator.

Interestingly, when the cop showed up, according to this article, and started to take a much more hands-on role, things started to happen. One of the points this article makes plain is that if you don't have the meanest, toughest regulator in this electricity marketplace, you are really going to be in a very difficult situation. For example, the state of California is now arguing, I believe legally, that it's owed \$9 billion. The most egregious example of the gouging is a case involving Duke Energy, which charged California \$3,880 for a single megawatt hour this spring that the year before they would have billed out at \$30 an hour.

I make those points, coming back to the issue we were talking about the other day. There is all kinds of evidence from the American and the British experience that

electricity is not a commodity like the others, that this is a market that tends to duopoly, oligopoly, all kinds of anticompetitive practices, almost always to the detriment of the consumer. I just want to hear you again say that you feel confident that on the eve of market opening, we've got a referee out there with really sharp eyes and sharper elbows.

Hon Mr Wilson: Just on the points you raised, I'll go from my recollection of California, having been there a few times. You're right, they had about a 20% reduction, if my memory serves me right, in terms of demand, which was dramatic and obviously a response from consumers to the extremely high prices they were experiencing, I would think. But that still wasn't enough. Their problem was far deeper than that, given that they hadn't built any significant generation in about 13 years. So in spite of systematically turning people off, and people voluntarily using less power—I assume because of high prices and in some cases unavailability of that power—it wasn't enough, in and of itself, to solve their problem. As we said last time, their problem could only be solved by bringing on new capacity, and they're bringing on some 3,800 megawatts at the moment.

You're absolutely right, but I just want to correct a couple of things. Plants apparently did go off-line. I was told by two of the regulators down there that at times power was even sold out of state when California itself desperately needed that power. I don't want to comment any further because, as you know, most of that is subject to lawsuits all around the state and outside of the state right now.

It probably wasn't FERC that they're referring to, although the article sounds like it makes this FERC's responsibility. There was a power exchange and an event system operator, a PX. Unfortunately, I never got to meet with the PX. The last time I was down there earlier this year, PX had gone bankrupt. But they had split jurisdiction about who was in charge of reliability and servicing domestic demand.

We've tried to learn from those mistakes. I'll just let Judy Hubert, the assistant deputy minister, comment on how the IMO has tried to learn from those mistakes. We've combined the functions of the PX—power exchange—and the ISO into the IMO. I'll let her take it from there.

Ms Hubert: As the minister has mentioned, the IMO will be responsible for all tasks which were carried out by three different entities in California: the ISO, the PX, as well as scheduling coordinators. In effect, in California they put maintenance decisions basically solely in the hands of generators. Here the IMO through its forecasts has to determine that there is enough supply—and they do these forecasts on an 18-month and a 10-year basis—to ensure that the outages are scheduled to ensure that we do not have supply problems.

Mr Conway: It is interesting to me, though, and as I say, I don't profess to know the California situation all that well—I'm just a garden variety elected official. I read this thing and I keep thinking, boy, one of the issues

in this marketplace is going to be volatility. It may very well be that over time everything averages out, but let me use another example. Some of the economists quoted in the Washington Post article say that clearly they would recommend that there be reliance on longer-term supply contracts. That seems to make some sense, presumably to take some of the volatility out of the market. Now California is faced with the situation where, with the state mandate, the utilities went out, signed some long-term contracts this summer averaging US\$69 per megawatt hour, which looked like a great bargain at the time, and now, a few months later, you've got that energy selling at 19 bucks. So it looks like the politicians again have caught the wave perhaps to the detriment of the consumer and the taxpayer.

Again, the point here is that it's not just reliability but volatility. Minister, you just talked about meeting those senior citizens. I know we have mechanisms that are supposed to mitigate against this but I just look—again, it's California, and I don't hold it out as a perfect example, but one of the arguments of the big power pool was to keep the waves from getting too high. I guess my question here is, is there anything in the experience in the United States or Britain on the question of extreme volatility of prices that causes anybody at the Ministry of Energy any angst?

Dr Purchase: First of all, I think your focus on this question of competition in this industry and how it will work is absolutely appropriate. There's no question—this is the model we're choosing—that the competition has to work effectively. It is essential to the long-run success of this model. We think we have in place the institutional mechanisms to ensure that.

1650

There is in addition in other jurisdictions an increasing resort to longer-term contracting, as you mentioned, and movement away from the spot market for most of the transactions. That may be something that will emerge in our market as well. Right now we have something like maybe a million customers or possibly up to a million customers who have opted to sign long-term contracts. If more and more people decide not to be on the spot market, then there's less and less chance for gaming of the market.

Having said that, we have surveillance mechanisms in place. We do have a tough regulator, backed up by yet another regulator. We have the IMO, then we have the OEB and then we have the federal competition policy. I agree with the concern that they focus on the need for competition to make this thing work, but I believe that we have in place the mechanism, as we said, that will do it.

With respect to volatility, electricity prices will be volatile over the day, that's a fact, but they do get averaged out. The customer doesn't see that. You have a very high price at certain times of the day and then you have an almost non-existent price at other times of the day. So this volatility will get averaged down in the bill and so on.

Mr Conway: I accept that. That makes perfect sense. But one of the think-tanks referred to in the Washington Post series makes the point, on the generating question, that here is a commodity, electricity, that's prone to the boom and bust cycles of things like steel and gasoline. They go on to talk at some length about first too little and then too much, again causing some real havoc in the marketplace. One of my concerns is that I hear people saying, "We want to pull the governments out of this." I just have a feeling where the pressure is going to come to rest on a commodity that is as political as electricity.

Let me just be more positive. On the California experience, one of the things I think that surprised everybody, and I hope the Vice-President of the United States—again back to the New York Times article of the weekend—is that when Davis and company embarked on a conservation program, according to this, they authorized about US\$800 million for energy efficiency programs, including a US\$30-million advertising campaign and some specific incentives, and it worked apparently beyond even their most positive expectations.

It made me think that it's been a long time since I've heard anybody really talking about conservation. We've had bits and pieces of it. Dick Cheney in Toronto, actually—this spring, wasn't it?—made the comment about conservation being a private virtue. Well, I think as a politician, and I presume I'm not alone, that people would look at California and say, "This has been a surprising success." It may very well be that the situation there was just so bad that people felt they had no choice, but according to the evidence in early days they've exceeded their most optimistic targets.

That leads me to the question, Minister, what is the thinking? Where does conservation enter the equation in the competitive marketplace that you see emerging? Do you see that as largely something that suppliers and distributors are going to have to look after with their customers or do you see a public role for government there?

Hon Mr Wilson: Not the same public role we had in the past. I was very keen coming into this ministry, as I'm sure most Ministers of Energy are, to have a major conservation program. It's generally considered good politics. It was certainly advised and shown that in the days when we were spending millions of dollars on stickers on every light switch to tell you to turn the lights off, it had a negligible effect on demand and it cost us more than it was worth. It took a while for the ministry to convince me, even though there are some good people in the ministry whose jobs depended on those programs, but they said that in a cost-benefit analysis it wasn't necessarily the greatest success. I wouldn't rule it out in the future.

You'll find that since those days, when the private sector heard that I was thinking of conservation and energy efficiency programs—and I use the words interchangeably as a layman—I had quite a few electrical contractors and people who make electric motors, freezers and that come to me and say, "We're already

doing that. If it's a good business case, it's a good business to be in. We go to places like GM and we save them millions of dollars, and our profit comes from their savings. There's no need for the government to be in it."

But having said that, I'll just point you to the Environmental Commissioner's 2000-01 report where he commended the ministry for maintaining its leadership in the area of setting minimum energy efficiency standards. We do that for quite a range of appliances—51 products—and that's adopted by other governments across Canada. Where we think it's effective in setting minimum energy efficiency standards—those stickers that are on your fridges and microwaves when you buy them—that work is done by the ministry and they should be commended for it.

Mr Conway: I understand that.

The Chair: Thank you, Mr Conway. Unfortunately, your time is up. We now turn to the third party. With consent, we have 40 minutes for the third party, which is the delayed session in the new rotation.

Ms Marilyn Churley (Toronto-Danforth): I want to begin by thanking both my colleagues from both parties for allowing me the opportunity to get back to my office to see a constituent.

I actually wanted to follow up on the energy efficiency question, Minister. As you know—and perhaps you don't know—I sit on the alternative fuels committee which your government set up. I am the New Democratic representative on it. When that committee first set out its terms of reference, conservation and efficiency were not included. I think it's fair to say that all of the committee members by now have agreed with me that those two areas are important to look at, and indeed we have added those, although they are not a fuel alternative.

We understand that the reason we're looking at fuel alternatives is to help protect the environment and, of course, because fossil fuels aren't renewable. For both these reasons, we need to be doing more than we're doing, and partly also because we know that Ontario is one of the biggest—if not the biggest, energy hogs in North America. We are tremendous wasters of energy. Pollution Probe came before us and said, and others have said as well—that the very first thing that has to be done while we're looking at all of these interesting new and emerging technologies—some not so new—is to focus on energy conservation and efficiency.

I appreciate your answer that there are some things happening, but there are some real concerns around what isn't happening and the need to put more of a concerted effort into that. So I want to ask you some questions around both alternative power and what you mean by it, and energy efficiency.

The Ontario Clean Air Alliance says that under your categorization the incineration of PCBs would be considered alternative power. I just want to ask you, Minister, if you consider the incineration of PCBs to be an alternative power.

Hon Mr Wilson: Not if I had any say in the matter. But I assume the energy goes somewhere when they're

burning PCBs, because they're trying to clean up a site, and you might as well make electricity out of it. I've never heard of anybody purposely setting out to make electricity out of PCBs, but it's probably not a bad idea if you're going to burn them anyway. I'm assuming that's in jurisdictions where the burning of PCBs is allowed.

Can I just commend you on the alternative fuels committee? It makes me angry that my own government never did ask me about the mandate of that committee. I gave a speech, probably two months before that committee was established. We gave \$50,000 to a very exciting new program, the Canadian Energy Efficiency Alliance's virtual energy efficiency centre, under the climate change fund. When I presented them with the \$50,000, I mentioned that we were thinking about setting up an alternative fuels committee, and one of the reasons would be that we wanted to have others, who might have better suggestions than the way we did it in the past, look at the whole area of conservation efficiency. In my opinion, a promise made is a promise kept. That was a public promise that I made on behalf of the government and I'm ticked off that it wasn't part of that. I did discuss it directly with Guy Giorno and people in the Premier's office. It wasn't in the original mandate, so my apologies and thank you for catching that.

1700

Ms Churley: Thank you very much. I'm pleased to hear that. I think we've gotten past some of the controversy about leaving that in there. There was some concern expressed in the last meeting in fact that because it wasn't listed as part of the mandate, it be taken out, but I prevailed and the committee overall agreed with me.

I wasn't aware of that. It would have helped me make my arguments. But to be fair to the committee, despite the concern around that, there was, I think, a consensus that it is an important part, and I commend you for recognizing that. Hopefully, we will not have another discussion or argument about this, but if we do, I will come armed with your statement from today.

Hon Mr Wilson: I'll go with you.

Ms Churley: Thank you.

Coming back to the PCB issue, I suppose I could ask you what you consider to be an alternative fuel. I have to tell you, I don't consider that to be. I understand what you're saying, if it has to be burned, but I'd like to know what you consider alternative power in that case. I'm concerned that customers could be misled into thinking that they're buying green power when you're calling something like the burning of PCBs an alternative power. So it's something you might want to look into.

Hon Mr Wilson: In terms of the definition of alternative power, it's been pretty thoroughly thought out under the new regime and the disclosure requirement. Jack Gibbons and the others have been very helpful, and I compliment Jack as part of the environmental subcommittee. Bruce Laurie is chair of that. It's been going on for about two and half years. This environmental group has never missed a meeting and they've given us lots of good advice.

This is one area where I think we have a lot of agreement, in spite of us being Conservatives. Perhaps others are not voting for us yet, but at least they agree that energy competition brings a whole new breath of fresh air into alternative fuels, a better management of climate change and hope for the environment.

If you don't mind, I'm just going to have the assistant deputy minister bring you briefly through the alternative fuels definition.

Ms Hubert: We provide a disclosure label on the electricity, and it's coming forward in two phases. The first phase was released in March 2000, which listed the sources of electricity. That is currently being revised, and under alternative power sources it will be saying "solar," "wind," "biomass" or "wastes." So you'll be able to then make your own assessment on what you feel is green or not.

Ms Churley: OK, thank you. I just want to thank you, Minister, for that answer. I'll have to have Jack Gibbons read the Hansard and see if he'll ever vote for you or not, but who knows?

Mr Conway: He sent him a thank-you note.

Ms Churley: Did he send you a thank-you note? I'll have to talk to him about that.

Hon Mr Wilson: I'll read it to you on the record as soon as I get it.

Ms Churley: I don't really need it but, sure, if you want to read it into the record, but not on my time.

Hon Mr Wilson: It will be painful but you'll enjoy it.

Ms Churley: I do have to quibble with your contention that Gibbons's group and others support the direction you're going in terms of privatization of the electricity sector. I think they say, and I must say I agree with them, that there are all kinds of problems with Hydro. I don't think anybody quarrels with that. Some changes had to be made, particularly around allowing the opening for alternative green power to get in. I remember the issues around that when we were in government, with the debt and the difficulties of bringing it on. Certainly, we needed to create an environment where that could happen.

There are many environmental organizations focused on energy that really feel that the way they wanted to improve Hydro was to actually put the public back into power. That was the way they put it. What they say is that we need stronger local democratic control over our power system and they are very concerned about the privatization. Some of them focus on rate increases but many are concerned that, so far, the way things are working out, the economic instruments, the policy changes that need to be put in place to allow them to come on-stream aren't happening.

There are a number of changes—and you may be aware of some of those; I'm sure they've come to your attention—we need to look at to make it more viable for them. Certainly you must have had deputations from some of these people and you must be aware of some of the issues around bringing that power on-stream, which is very real and a problem I think we all have to work on

and try to resolve. That is something, again, we're talking about on the alternative fuels committee, that the economic instruments and policy changes are paramount to making these things happen. Would you agree with that?

Hon Mr Wilson: I think in terms of the big policy change, which is that it's now allowable and encouraged, what I've said, and I said this at the last meeting of this committee, is that we've not ruled out anything. We've cleared the way for alternative fuels. We look forward to the committee's report. I'm fixed right now and the department is fixed right now, as are the regulators, in trying to get the market up and running. I think I called them bells and whistles before. There's a lot of good stuff that could come later which the Energy Competition Act in no way prohibits.

We had a lengthy discussion with environmental groups prior to the introduction of that act. At that time, President Clinton was talking about an environmental renewable portfolio, for example, where a certain amount of electricity had to be generated using green power. He never did do it, though. In eight years of talking about it—he's famous for this, the same with his EPA regulations—there was never one act passed by Congress. Here's the biggest green power guy in the world, according to his supporters, and they have to be gravely disappointed. At least we have an act that's gone through our Parliament that allows this. It doesn't prohibit it.

I think my point in history, while I have this position, is to get the market open. Greater minds than mine will come along and figure out how we can incentivize green power, if that's what customers want. I think at least by doing environmental disclosure, being very forthright and honest about where your power is coming from and making sure that's part of the regime and not only a luxury from time to time, governments might tell people the truth about these things. This is actually in the law. It's required as disclosure.

I've been saying that over the next 10 years we'll have an even more environmentally educated people in Ontario. Every household will eventually know—certainly the information will be made available to them—where their power is coming from and the emissions that are created in the production of that power. Then I think you'll see people demanding greener sources for that power. That may lead governments to bring in programs that incentivize it in some financial way, or a renewable portfolio or standard or something like that.

I've asked everyone to be somewhat patient, given that I'm trying to undo 93 years of history in a relatively short period of time and get a market set up so that all these things will be possible in the future.

Ms Churley: As you know, these are the kinds of things that they're asking for and are quite anxious to get into the system.

I wanted to come back to energy efficiency and conservation, though, because that's a big interest of mine. When I was on city council, I started the energy efficiency office there. It's one of the first things I did, which led to the now famous atmospheric fund. It's doing just

tremendous work around energy efficiency and conservation. I still continue to have a great interest in this.

You responded to some extent to Mr Conway's question but I wanted to expand a little more. You mentioned the Canadian Energy Efficiency Alliance, I believe. They say that incentives for energy efficiency have to be built into the electricity system. Right now it's voluntary and that's not good enough. It's not going to do the job.

My sense is that the OEB is waiting for some kind of direction on this. I don't think we should fob this off on them. When you ask them, they're looking for some direction. Somebody's got to give that direction. I guess the question is, are you going to do that or do you believe that you can continue to do this voluntarily? It's just not working. It's not happening.

1710

Hon Mr Wilson: Energy efficiency is no longer voluntary. It is part of the Energy Competition Act. In fact, it's one of the mandates of the OEB. Mr Laughren is not waiting for this government to tell him what to do. If he were here, I think he would say exactly what I've said. We've got to get the market open. He keeps reminding me how busy they are over there, doing what they have to do right now. We continue to listen to those groups, and they should continue to put the pressure on. But we're just not quite there yet, given that we've got just some fundamental work to do in getting the market open. But energy efficiency isn't going to be left to the whims of politicians or governments unless they decide to change the act, that it actually is built into the act. The OEB has experience in the gas sector, as you would have learned and probably knew.

Ms Churley: Yes, I was going to refer to that.

Hon Mr Wilson: I think at best, if you're really serious about it, let the regulator do it. Let the regulator make suggestions to government from time to time. They've had tremendous success in the natural gas industry without a kerfuffle from either side. Most people don't even know that energy efficiency was built into the mandate of the OEB when they dealt with gas over the years, and yet environmental groups do and they give the OEB credit for that. We've levelled the playing field there and said, "What you've been doing in gas, keep going and do it in electricity." I agree with you. We can't just keep building plants ad nauseam and not dealing with the demand side of this business.

Ms Churley: I guess that brings us back to retrofitted buildings. Your government just brought in a new building code. Correct me if I'm wrong, but as far as I can see there's nothing—I know that's not your area. I don't know if you've had a chance to look at it, but this would have been an opportunity to build in stricter codes around the building code and new buildings. Also, we need to do something positive about retrofitting older buildings because they just waste energy like crazy.

One of the things you may recall, because you were in the third party then—I don't know if you supported us in this or not, but the NDP had a green communities pro-

gram. What we did was send energy experts out to assist homeowners in identifying appropriate energy efficiency improvements. That, in turn, created a demand for a variety of private sector products and it helped both the consumer and the environment. I'm just wondering if you would be open to looking at—you can call it whatever you want—that kind of program again.

Hon Mr Wilson: With all due respect, I've talked to a number of people who benefited from your program and they happen to be the private sector contractors. There is a natural business out there for people to save money on their heating bills and the savings alone will help pay for the retrofits and the work that has to be done. We can debate till the cows come home, I'm sure, who actually benefits under these programs the most. My view would be that it's often the very contractors who, if just left alone, would do it on a supply-and-demand basis in a free market. They'll take the money from government, as they did under social housing, and do turnkey operations. But is it the most efficient use of taxpayers' dollars? Your party and my party would agree to disagree on that.

Ms Churley: Exactly, we disagree on it. One of the things we found when we were in government, and it's still an issue out there, is that the capital cost of many of the energy retrofits in efficiency improvements are quite frequently above the means and out of the reach of a lot of building owners and tenants, where there's such a long-term payback period. That's something we saw time and time again, and it's a real problem in terms of getting this urgent work done. Again, would you say that you don't see a government role in that?

Hon Mr Wilson: Not for the time being, no.

Ms Churley: One last question around energy efficiency. Again, the Canadian Energy Efficiency Alliance suggests—and I don't know if they talked to you about this—a special charge of, I think they said, about 35 cents to fund \$40 million in energy efficiency programs each year be added on to electricity bills. That's their suggestion as a way to deal with some of the areas where public money, government intervention, can make a huge difference. It's a very small amount. I'm just wondering if you have had an opportunity to think about that as an option, to help fund programs you do support and agree with and think that it could make a difference.

Hon Mr Wilson: Again, I haven't found too many programs that make the difference and pass the business-case test, ie, good value for taxpayers. That's why I wanted the alternative fuels committee to seriously look at it. I've said publicly many times that we can't do it the way we did it in the past because we bankrupted the province and we didn't get the decrease in demand that we certainly thought we would get. In fact, demand kept going up and millions of dollars were put into these programs. If there's a better way to do it, that's why we're here in government: to listen to people and respond. But they're going to have to come forward with programs that do a better job than in the past.

Ms Churley: Of course, Minister, I beg to differ that this kind of important public policy assistance from the

government into our communities to protect the environment is not what bankrupted the province. We were in a serious recession, the worst since the 1930s, which you're about to experience for the first time. Believe me, it's no fun. It's easy to govern in good times. But we differ; we're not going to agree on that. That's not what bankrupted the province, but we'll leave that aside for now.

I wanted to just change gears here for a moment and talk about emissions trading. On October 24, 2001, your government finalized its emissions trading proposal and lifted the moratorium on the sale of OPG's five dirty coal-fired power plants. As you know, as a result of that, OPG will be able to increase its total coal-fired electricity generation and emissions. That's a fact. Furthermore, OPG can now proceed—

Interjection.

Ms Churley: Yes, it is—with the sale of its coal-fired plants to US electric utilities. In short, what these policy decisions mean is that they will permit the OPG to increase its profits at the expense of public health. That's my reading and it's certainly the reading of several environmental groups that have expertise in this field and that have examined the announcement and its implications. That is the concern. I'm going to just give you some examples.

Your new nitrogen oxides emissions cap will reduce the total smog-causing nitrogen oxides emissions from the electric power sector. However, the required reductions will not be sufficient to achieve compliance with the Canada-US smog deal which was signed, as you know, in December 2000. You might have been there; I don't know. That's the Ozone Annex. The smog deal caps the nitrogen oxides emissions of southern Ontario power plants at 25,000 tonnes in 2007. This is the kicker here: the government of Ontario's emissions trading rules would permit southern Ontario's electric power plants to exceed this cap by 33% in 2007. I'm concerned that the government is breaking this international agreement on smog.

Hon Mr Wilson: We're just trying to follow Kyoto, which allows and encourages emissions trading. I've read those articles too.

Ms Churley: But there are some real concerns about it.

Hon Mr Wilson: They go against the whole world that's involved in these discussions, though. Most of the world lives in the real world and they realize it would be best to put financial incentives in place, that if you do what we're doing, for example, and putting scrubbers on the coal-fired plants, at least two of them, there would be some economic or fiscal recognition of that. What is it? How many millions are we spending on that one, just on the SCRs alone? It's \$250 million. We're not going to get \$250 million worth of credits, but OPG will get some credit, some recognition for doing that. There are competitors, in the States who have the opportunity to do that too. I don't know how you're going to get companies that aren't run by government to actually want to lower their

emissions, other than you're going to have to keep doing what they've unsuccessfully done alone, which is just to keep regulating and hammering these people over the head and saying, "Today the cap is this and tomorrow it's this," as the EPA has had to do.

1720

As a small bit player in this whole thing, the way I look at it, and I look at all the discussions around Kyoto and that, is that the vast majority, the agreements themselves, allow this. We're not doing anything different, what others won't do.

That's somebody's imagination gone wild. I could write you an article saying emissions are going to go up 100%, I suppose, if I imagine they're going to get 100% emission trading credits for that plant. It just isn't going to happen that way. It's ridiculous. It's ludicrous. It's misleading. People shouldn't write articles like this. I don't know where they get off being environmentalists when they mislead people like this. It goes against the entire world that's in these discussions. It's like chasing ghosts, for guys like me. It just isn't true stuff. It's fantasy. It makes their story and it gets a few more fund-raising dollars, I suppose, into their little group. I can only point to what the world is talking about, what the world is agreeing to. Ontario is just trying to do its part in that big picture.

Ms Churley: Let me tell you some more things about their analysis and mine. You were talking about me here as well being totally wrong. I just want to put this before you.

"The new emissions trading rules will permit OPG to increase its sulphur dioxide emissions"—that's smog and acid rain we're talking about—"by 5% by the year 2006. In 2007 OPG will be required to reduce its sulphur dioxide emissions by 13%. The Ontario Medical Association," as you know, "has called for a 75% reduction in the sulphur dioxide caps."

I know that's very high. The reason why they are calling for it is that by now—I don't know if you support the OMA's numbers or not or if you consider them in the same category as the environmental groups you were just referring to, but their studies are showing and they are saying that in Ontario, up to 1,900 people a year die prematurely specifically from these kinds of emissions. I know that 75% reduction is very high, but this falls so far short of where we need to be, considering what we now know about the impacts of these emissions to our health, particularly the very young, the elderly and the ill.

Hon Mr Wilson: I won't go into the OMA's figures, I'm sure. The part I would disagree with is that the electricity sector is responsible solely for whatever number of deaths with respect to air pollution. I just want to read in a note from the department on where we are. As I said at the last meeting here, we're very proud of our environmental record. We've taken tremendous steps, beginning with your government in 1993, I believe. Since that time some \$2-billion-plus has been spent on cleaning up the emissions from the electricity sector, OPG's generators. We've made it a policy of the government of Ontario to

meet or exceed any emission standards the EPA puts out. We have the cleanest electrons in North America today. As a group, we have the cleanest fossil-fuel coal plants.

Let me read something for a minute in terms of the critics in this area. "Critics ... forget to mention that the US SIP Call's tough standards are only in force for five months of the year." Ours are in force for 12 months of the year. I've never read that in any of these bloody articles, ever. I had to be briefed on that.

Critics also fail to recognize "the United States contributes more than 50% to Ontario's smog," and in our air shed, the United States has 214 coal plants and are building more, while Ontario only has five. I almost never read that. I think I've read it once, and that's because I said it. That was in quotes.

"Ontario's electricity system produced less than two grams of NO_x and SO₂ for every kilowatt hour generated in 1998. Ohio's system produced over 10 grams." Ontario's total was 200,000 tonnes of nitrous oxide and SO₂ versus Ohio's 1.5 million tonnes and Indiana's one million tonnes. "Even New York produced over 300,000 tonnes ... 50% more than Ontario."

There have been claims that Ontario is lagging in cleaning up emissions from electricity. The reality is that Ontario is well ahead of the US states in converting to clean electricity. Three quarters of our electricity already comes from non-emitting hydro and nuclear generating plants.

Finally, Ontario's coal plants currently meet the US Clean Air Act's standards for NO_x and are considerably better than the US requirements for SO₂, and the new emission caps will ensure Ontario maintains its leadership in addressing air quality.

Frankly, I just wish that people would write the whole story and then let those reading it or those seeing it on TV judge for themselves.

Ms Churley: I think environmental groups do acknowledge that some of our pollution comes from the US, but their job is to lobby and push to have our own government do our part here.

I just want to ask you a last question. I have a lot more but I want to get to another area before I'm finished.

I'm sure you're aware of this. "Eighteen Ontario municipalities have called for a provincial environmental assessment of OPG's proposal to install selective catalytic reduction"—I'll refer to them as SCRs—"units on two of Nanticoke's eight coal boilers and on two of Lambton's four coal boilers. The SCRs would reduce OPG's nitrogen oxides emissions by 12,000 tonnes but"—this is the important part here—"they would not reduce the 29 other pollutants emitted by the power plants. In 2000, Nanticoke's and Lambton's total emissions of 30 air pollutants exceeded 32 million tonnes. Therefore, the proposed reduction in nitrogen oxides emissions represents only 4/100ths of 1% of the plants' total emissions." Then again, according to OPG's own reports, if these SCRs are installed, it will increase its coal-fired generation and total emissions by about 6% between 2000 and 2012.

What I want to ask you is why your government is denying the public an environmental assessment of this environmentally questionable decision at this time.

Hon Mr Wilson: I think I'll let those from the ministry who are more expert than I am answer your question in a more fulsome way, but I just want to say one thing. I saw municipalities get on the bandwagon and ask for this EA. By the way, I've visited a few of those municipalities, and they never bring it up to me in person. I find it mind-boggling as a citizen in this province, when we're trying to improve air quality, and SCRs do improve air quality, that someone would be opposed to them. Knock us on something else, but not something positive that we're doing. I found that a little difficult to understand.

Rick Jennings will comment on what we are doing.

Mr Jennings: The proposed SCRs would reduce the NO_x emissions by 80% on each of the units they're put on. The argument is what it does to the other pollutants. Basically the NO_x caps were set on the basis of there being that technology available to reduce those emissions. This is why the regulations themselves are pushing OPG to put in the SCRs. They're directly a result of the emission caps. So in terms of the other emissions, the other pollutants basically aren't going to be going up as a result of that. The caps have been set on the basis of the SCRs.

Ms Churley: I think that having an environmental assessment, particularly since your government has scoped it—and that's a positive way of putting it. In my view, it has taken the heart and soul out of it, but it has scoped it to the point where you could have a very concise environmental assessment. I think that would be worthwhile looking at.

Before I'm through, I wanted to come to another area of concern: Ontario, Yours to Pollute, a report on Ontario's waste water violations. This report says that the filthiest four violators from 1999—the reason these are numbers from 1999 is that the Minister of the Environment, through the FOI, has not been forthcoming. They've had appeal after appeal. They eventually get these numbers. But what they have found is that the four filthiest violators of waste water include Ontario Power Generation. I just want to know what your plan is to deal with this. It's very concerning stuff. If you look through, you will see that they actually say that "eight facilities violating Ontario's waste water discharge limits: Pickering, Darlington and Bruce nuclear generating stations and Lambton, Nanticoke, Atikokan, Lakeview and Thunder Bay thermal generating stations. These eight facilities violated Ontario's waste water discharge limited 187 times in 1999." They say that in many cases it's lethal, into our drinking water. I think you will agree with me that we've got to do something about that.

1730

One in particular—I'm trying to find that now—is on the list as a constant violator for the past five years and there have been no charges laid. Nothing has been done and it's of great concern. I'm just wondering what your comment would be and what you think should be done.

I'm even leaving aside the whole issue that I asked the Minister of the Environment about in the House around enforcement and prosecutions—but you as the energy minister and your concern about this and what you propose we can do to make these plants clean up their act and stop discharging lethal substances into our waterways.

Hon Mr Wilson: I'd ask Judy Hubert, the ADM, to answer that.

Ms Hubert: Part of the elements that were raised on these non-compliances relate to OPG's zebra mussel program, which adds chlorine to the water to deal with the zebra mussels. That is one of the areas that is dealt with, and we have to control the zebra mussel population around those water intake areas.

OPG has dealt with all non-compliance occurrences that were reported to MOE and remedial action plans were approved. In all cases the non-compliance concerns have been eliminated or are in accordance with approved MOE directives and they will be in compliance by a defined date as specified by MOE.

The other part I would like to add is that OPG's concern for the environment has been recognized. They have received an ISO 14001 certification that calls for environmental improvements. So, based on that certification, they have been addressing these environmental concerns.

Ms Churley: Minister, I just want to ask you directly if you are satisfied with that response. If you believe what's in this report—and you may dispute it. I don't know if you accept it. I do because I know that these people are quite trustworthy and have good analyses done. They always send reams and reams of material when they'd finally paid their money and got their—the ministry hadn't compiled it; they did this work themselves. If you believe what they say, that the effluent from the three nuclear power stations failed acute toxicity tests, and that means lethal to aquatic life, Darlington failed acute toxicity tests 58 times, Pickering 19 times, Bruce 15 times, and the OPG Lambton released waste water in 1999 containing *E. coli* in excess of the permitted concentrations. Again leaving aside that they weren't charged for this, this has been going on for some time. It's documented. The numbers came from the Ministry of the Environment.

With all due respect, what I just heard, given the concerns around water, particularly post-Walkerton, we have to take this very seriously and there needs to be some kind of plan put in place to make sure it stops.

Hon Mr Wilson: OPG does take seriously any non-compliance that's brought to their attention. I read that thing and I must admit I didn't read any background papers that might be attached to it to perhaps justify the statements made, but the statements are so broad that you would think our plants are pumping out lethal, toxic fluid every hour of every day and this is just what we do. I mean, when you flush for zebra mussels it's meant to be lethal, and if you're testing—

Ms Churley: But I don't think that's all we're talking about here.

Hon Mr Wilson: That is the major incidence of what they're talking about. Believe me.

Ms Churley: Then it's a problem if it's failing these tests.

Hon Mr Wilson: If it is a problem, it's a problem in the city of Toronto, it's a problem in Collingwood, it's a problem everywhere that they flush, and if you happen to put your meter down there at the time, you're going to get a mouthful of chlorine. There's no doubt about it. It's meant to be lethal. So that is misleading.

To have general paragraphs that I read in that report, typical of the Sierra Club, to just say that's what is going on all the time out there—first of all, it's so over the top as to be so unbelievable. There'd be the OPP out there, you'd have the RCMP out there and you'd have Environment Canada out there if that were the case. I wish they would just say that this occurs from time to time when flushing occurs. When there's better technology, yes, we're always interested in that as municipalities. But we're no different from anyone else that has a water intake or a water outtake in the Great Lakes. By the way, the Great Lakes have been improving over the years. In fact, I just saw a recent report on that.

So we take it seriously if there actually was a violation. But to go around saying there were no charges—

Ms Churley: But there weren't.

Hon Mr Wilson: —just implies that somebody is covering something up, and that is not the case in this case at all.

Ms Churley: They're exempted. Program approvals exempt the OPG and that's the problem.

Hon Mr Wilson: It just makes me mad that people make a living spewing this type of stuff.

The Acting Chair (Mr Wayne Wettlaufer): Ms Churley, your time is up. We'll go to the government side for the final 20 minutes.

Mr Ouellette: There is a company that has been retailing an environmentally friendly fuel in Asia for about two years and they have been trying to get approvals to use Ontario for a distribution base for North America for that period of time. It appears that we have some difficulty in that there is no set policy for new alternative fuels to come on-line and taxation rates.

Do you know of any policies or procedures that can proceed so that this corporation, which is currently working in Asia, can come on-line here? As it stands now, they have to get a number of ministry approvals, yours being one of them, before it'll even be reviewed by other levels of government.

Hon Mr Wilson: Jerry, what's the fuel?

Mr Ouellette: It's a naphtha-ethanol base. It fits directly in a vehicle and it requires zero modifications. Currently General Motors—major auto manufacturers are testing it to ensure that it complies with warranties. But the Asian manufacturers such as Mitsubishi have already had compliance.

Are there any procedures or policies that should be reviewed so that we can streamline companies that want to bring these things on-line and help them get going?

Hon Mr Wilson: It would be more the Ministry of Finance. I assume they're going after the fuel tax exemption, which we do have in place for ethanol and I don't know what other fuels. It was before my time.

Interjection: Methanol.

Hon Mr Wilson: And methanol. They'd have to approach us, approach the Ministry of Finance. I must admit I don't have any first-hand knowledge of this. Maybe I should, but I don't.

Mr Ouellette: Natural gas and propane have specific exemptions as well. All they're asking you to do is, "Tell us what it's going to be so we know whether we're locating here or going elsewhere." Right now they're having a large difficulty in obtaining the information.

Hon Mr Wilson: Again it's a matter of lobbying the Ministry of Finance.

Mr Ouellette: The Ministry of Finance has specifically said that yours is one of the ministries that they have to receive approval from first.

Hon Mr Wilson: Well, no one has brought this to my attention in the Ministry of Finance, so give me the bureaucrat's name who said that, because it isn't true. They haven't talked to me, anyway.

Mr Ouellette: What about phasing out of MMT or MTBE in having ethanol or other alternatives, oxidizing agents? What would the impact be on that? Do you have any ideas?

I've met with Sunoco, and one of the concerns there is that currently their blends use ethanol, they have huge distribution problems and at the Chatham plant they have to transport all that to the mixing plants in Ottawa and it's getting very costly for them to transport these goods around. What would the impact be of phasing out MMT or MTBE on the industry as a whole? Do you have any idea?

Hon Mr Wilson: Any thoughts, our fuel expert over there? It's probably a good question.

Mr Jennings: I don't think anyone has looked at the impacts of phasing it out. Obviously, ethanol can replace some of it as a fuel additive, in terms of octane enhancement, but I don't think anyone has looked at the impacts of phasing one out. Obviously, it would be additional support for the ethanol industry, which is already fuel-tax-exempt.

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Mr Ouellette: I would imagine, though, it would have—

Mr Jennings: It would have a positive impact, if you were to basically mandate—

Mr Ouellette: Well, positive from an environmental aspect; however, I'm not sure of the economic impact, whether there's producers for MMT or MTBE in Ontario in those plants.

Mr Jennings: MTBE was subject to a trade action; the federal government tried to ban it. So someone would have to look at the trade implications of that as well. The federal government ended up having to pay them \$30 million or something because of a ban on it previously.

Again, that would be something else someone would have to look at.

Mr Ouellette: One other quick question, and I know Mr O'Toole's trying to get in.

One of the areas of concern, having General Motors in my riding, is obviously end-user emissions trading. There is zero incentive for General Motors to use environmentally friendly energy, as they don't receive any user credits for it. If they use what we're classifying as green energy, they don't receive any emissions credits for that. Is there anything being looked at for that, or is there anything being looked at for cross-border emissions trading? For example, if the Oshawa plant puts up a new \$200-million paint shop and substantially reduces emissions, they can't transfer the credits that would be allowed on that to the US plants to have them continue on in the process they're currently using. Do we know of any discussions going on about end-user trading or cross-border trading for emissions?

Hon Mr Wilson: It's an excellent question. We're just discussing it here. I'll make a general comment, and then I'll get Rick Jennings to fill you in on what might be available to them.

Emissions trading is in its early stages, and that's part of why it's so hard to accept criticism at this stage from these environmental groups, when they can only be guessing and using their imaginations, to a great degree, as to what might happen. Through PERT, certainly in the energy sector and the electricity sector in particular, we're really breaking new ground, and Kyoto gives us the opportunity to do that. But Rick is more of an expert on what's been decided to date.

Mr Jennings: Currently, the only sector that's capped is the electricity sector. There is a provision there of one kiloton of NO_x for renewables or energy efficiency projects, so a company that was able to demonstrate that theirs was a renewable project that would reduce generation could try to qualify for that.

The Ministry of the Environment has a plan to expand that cap to cover more sectors, so they are already consulting with industry and have announced a timetable for that. If a sector is capped, it would be able to generate allowances; so if the auto sector was capped, they would be able to generate allowances. In terms of cross-border trade, that is certainly something that Ontario is interested in and we have, I think, pushed the federal government to try to get that as part of the ozone annex, which was described earlier. One of the provisions that would make it easier for Ontario companies to be able to meet those provisions is if we could trade, buy credits and sell allowances into the US.

Hon Mr Wilson: Just to add to that, the real importance of Minister Witmer's announcement a couple of weeks ago with respect to capping other industries is crucial. For the people who may not know, right now there's no one to trade with, except others in the electricity sector. We did a bit of trading under PERT with, I think, California last year; OPG might have done some of that. But she announced other industries that would be

capped and then, therefore, would have a chance of setting up an emissions trading regime. The auto sector wasn't in that list of the most recent announcement anyway, that I know of. It has a sector, but maybe it comes under steel or something.

Mr Jennings: The large generators of emissions—steel, chemicals—is what they're starting with, but the intent is to move down as more get covered.

Mr O'Toole: Thank you very much, Minister, for providing us with this whole asset evaluation calculation strata. That might have been helpful if I had read that before.

But just to conclude on that comment, I sat on the select committee on Ontario Hydro and nuclear, just after the Macdonald commission, and I was quite interested in the NAOP, the nuclear asset optimization plan, which said we're going to spend \$3 billion or \$4 billion, whatever it was, to get them up to efficient levels. It's a simple question, I guess. That plan I think is sort of rolled out, or mostly rolled out. Are they achieving the investment objectives? I read the reports; I get them from both the Darlington and Pickering plants, and they are operating in the 90% efficiency rate. Is that where we're happy? It's a very important issue with respect to efficiency because, if you go back to the asset optimization plan, it was really all about making the assets more valued and, as such, for every cent that the increase—the rule of thumb in here says, "Every cent increase at the wholesale level leads to an \$8-billion increase in the value of OPG." That's pretty impressive stuff. The stranded debt looks like much less of a problem if you're really operating efficiently.

Hon Mr Wilson: That's a very timely question. As you know, the Canadian Nuclear Safety Commission announced yesterday that they have amended the operating licence for Pickering A and will allow it to come on-line, with many conditions. I just note the overall economics of that. First of all, OPG's board, which is running it like a business, studied it pretty long and hard, and we had the committee you referred to, the all-party legislative committee, look at it. One thing that struck me was that they indicated, at that time anyway, that the money they would spend on bringing back Pickering A, for example, was less than building a new fossil fuel plant, and fossil fuels tend to be the least expensive plants to build, comparable in megawatts. So I think it's money well spent. Obviously those who have studied it feel it's money well spent, and starting now we'll see the fruits of that labour. You're going to have inexpensive, more clean power available as a result of the Pickering A restart, plus all those good jobs that are available, given that the asset could have been mothballed and literally billions of dollars of taxpayers' money down the drain in the past—ratepayers' money now.

I think it was a good plan. It was well studied. It's nice to finally be around—I didn't think I'd be the minister three years later or four years later, but it's nice to see that they've worked hard there and these units are getting their licence to come on-line, and hopefully now they

will come on-line and provide Ontarians with relatively inexpensive, clean power, which we need more of.

Mr O'Toole: That's the whole point of the argument. I've always sustained the argument that the price we pay in our homes and businesses and how important it is to us—and at the same time for years we weren't paying what it was really costing. That's what the \$38 billion said to me. The big deficit number said we were subsidizing it by another name, called "debt," really. When you go to comparing it with other forms of power and generation, the full cost equation is very important. Jerry and I, as well as the member opposite, are on that alternative fuels committee, and it's quite educational to see the choices of hydrogen and other initiatives.

But I want to switch the topic, if I may, to give you time to talk with some level of passion with respect to some of the initiatives under science and technology in your ministry, because I think it's the less touted. I just received a remarkable set of little brochures which I think are important, not even politically, but important for the people and especially the young people as you look to what this government's commitments are to research and technology.

As you know, I was happy to attend a meeting on your behalf with the materials manufacturing group, MMO, a recognition thing for the researchers working together with partners in industry. These are unsung stories. I commend you for those, if you want to expand on that, the centres of excellence or other initiatives under that part of your ministry.

Hon Mr Wilson: Thank you for the opportunity. In fact, with respect to Materials and Manufacturing Ontario, MMO, this week—Monday, I guess, yesterday—we were able to make a follow-up announcement to the time you were with them, a total investment of \$7 million from the taxpayers and an additional \$21 million from the private sector and MMO, MMO using relatively small dollars to lever challenge fund money and private sector money in what they call emerging materials. Those are materials that are known to exist but they're not yet used for commercial purposes.

The example they gave me of an emerging material years ago would have been fibre optic cable. That was an emerging material, but it hadn't been proven to be of any commercial value. It takes oomph—I don't know how "oomph" is going to come across in Hansard—it takes a push in many cases. Think of the space age materials that may come forward—I call them space age materials—from that announcement alone with the work MMO is doing. We did it in a company called Luxel, which makes flat panels for instruments, high-end instruments like altimeters on CF-18s and gas gauges. It's a fantastic company. It's the only company I've ever been to where they actually aim toward low production because they are such high-end products. Their secret is the—and I'll let Bill Mantel explain it perhaps better—actual space-age material that's only a millimetre thick, which we would call the plate of glass on the instrument itself. It is so strong that it can be used on CF-18 aircraft, for example, and then the way in which they literally project the actual

dials themselves or the extra readings themselves on the screen. It is amazing. Bill might want to talk about that. That's just one example.

If you make these initial research investments, we're really helping to recession-proof ourselves, as the Premier says. Those jurisdictions that can find the new ideas, create the new ideas, be innovative, bring those ideas to market and produce goods and services, therapies, new drugs and cures—in good times and bad the world will want to buy those products. You will be creating jobs in your jurisdiction. Bill may want to talk a little bit more, but I think we've got to go for a vote.

The Acting Chair: Minister, I think we are out of time. I want to thank you. With the consent of the committee, I would like to now request the collapse of the votes.

Shall votes 2901 through 2903 carry? Carried.

Shall the estimates of the Ministry of Energy, Science and Technology carry? Carried.

Shall I report the estimates of the Ministry of Energy, Science and Technology to the House? Carried.

The meeting is adjourned.

The committee adjourned at 1752.

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