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Standing committee on public accounts

Special audit report of
Bruce nuclear transaction,
Provincial Auditor

Chair: John Gerretsen
Clerk: Tonia Grannum

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Vérification spéciale
de la transaction
de la centrale nucléaire Bruce,
Vérificateur provincial

Président : John Gerretsen
Greffière : Tonia Grannum

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ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

STANDING COMMITTEE ON PUBLIC ACCOUNTS

COMITÉ PERMANENT DES COMPTES PUBLICS

Thursday 6 June 2002

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The committee met at 1107 in committee room 1, following a closed session.

SPECIAL AUDIT REPORT OF BRUCE NUCLEAR TRANSACTION, PROVINCIAL AUDITOR

The Chair (Mr John Gerretsen): I'd like to call this meeting to order. Could we please have some quiet in here? Thank you very much.

Thank you for the great interest shown by everyone in the workings of the public accounts committee. We'll have the presentation of an opening statement by Mr Peters, and that'll be followed by questions that various members of the committee may have. Mr Peters, the floor is yours.

Mr Erik Peters: Thank you, Chair. On October 12, 2000, the standing committee on public accounts asked my office to examine all details of the leasing agreement between Ontario Power Generation and the Bruce partnership for the Bruce A and B nuclear plants. We were asked to do this to determine if the deal offers value for money for Ontario taxpayers. Since the mandate specifically stated we were to conduct our audit only once the agreement was completed, we could not begin our audit work until the fall of 2001.

The leasing arrangement is very complex and consists of a lease agreement and 52 ancillary agreements. As to value for money for Ontario's taxpayers, we reached three conclusions, which are as follows.

First, with respect to the competitive bidding process, we concluded that the process followed by OPG and the shareholder—that is, the provincial government as represented by the Minister of Energy, Science and Technology—was appropriate and consistent with standard business practices. The bidding process was competitive and included the involvement of several sources of expertise, and the highest bidder won the auction.

Second, with respect to whether the appropriate value was received by OPG and the shareholder for leasing the Bruce facility, we assessed and compared the present value of the future cash flows from the lease and from the status quo—"status quo" meaning if OPG continued to operate the Bruce facility. We calculated that, under the lease, the present value of OPG's cash flows would be about $170 million less than under the status quo. However, we concluded that this amount is highly volatile, because changes in the assumptions made to determine the difference in value between the lease and the status quo could dramatically change this amount. Specifically, changes in the assumptions relating to the following key factors can have a significant impact:

(1) future electricity prices;

(2) the number of years the reactors can operate without major refurbishment;

(3) the level of ongoing capital and operating costs; and

(4) the amount of electricity production lost due to maintenance downtime.

For example, a 10% increase in electricity prices would have increased the $170-million difference in favour of the status quo to $455 million. On the other hand, if the reactors operate four years less than estimated before needing refurbishment, then the $170 million in favour of the status quo would change to $85 million in favour of the lease scenario.

Although the present value of the cash flows under the status quo was higher than under the lease transaction, OPG and the shareholder decided to lease the Bruce facility after taking other considerations into account. Specifically, these are:

(1) the lease provides a more stable and certain cash flow;

(2) the lease would allow OPG to concentrate its improvement efforts on its other nuclear plants, for example, restarting Pickering A;

(3) Bruce Power would set performance benchmarks for OPG management and its employees that, if achieved by OPG, would help improve the cash flows from OPG's other nuclear facilities; and

(4) OPG was required to decontrol at least one of its nuclear facilities to meet the privatization target set for it by the government.

The third conclusion: we concluded that OPG's decision to accept lower but more certain earnings through the lease transaction will have a negative impact on the stranded debt of old Ontario Hydro. Using OPG's own words, "The contribution to net earnings from the Bruce nuclear generating stations has decreased by $214 million before tax in 2001 compared to 2000." This loss in earnings, at least in the short term, significantly decreases OPG's contribution to the stranded debt. The impact of the loss in earnings is expected to be less in 2002, when the variable rent payment portion by Bruce

Power becomes effective, and of course thereafter when the variable rent payments are also affected.

As well, we observed that Bruce Power also obtained significant upside potential in acquiring the rights to Bruce A, which has been laid up since 1998 but which Bruce Power plans to restart and considers a significant business opportunity. OPG had decided not to restart Bruce A, at least in the near term, and factored only lay up costs for Bruce A into its cash flow calculations.

In a nutshell, OPG and the government, as shareholder of OPG, have accepted lower cash flows and lower earnings for the taxpayer from the Bruce nuclear facilities in return for less volatile cash flows, more stable earnings and a number of perceived benefits. I note that the value of one of these perceived benefits—namely, that of OPG being able to concentrate its improvement efforts on its other nuclear plants—is at present put somewhat into question by the publicly reported and significant cost overruns and delays being experienced in restarting the Pickering A nuclear plant.

Finally, the fact that the terms of the assignment allowed us to look at the Bruce transaction only after it was a done deal, as well as the fact that we were satisfied with the process followed in conducting the lease transaction, precludes us from making recommendations regarding the transaction. However, I would urge the government as a shareholder to take a very active interest in the cost overruns and delays being experienced in restarting Pickering A. The delays could drive up electricity prices, and the cost overruns can negatively affect OPG's cash flows and its contribution to reduce the stranded debt.

That ends my presentation.

The Chair: We now have approximately 13 to 14 minutes for each caucus to ask the auditor questions, and then we'll determine how to proceed with it next week.

Mr Sean G. Conway (Renfrew-Nipissing-Pembroke): Thank you, Mr Peters. Some of my colleagues will obviously join this as well. One of the terms of reference was to basically have you look at this deal and advise the Legislature and the people of Ontario whether overall the taxpayers got value for money for the lease at Bruce. I've got your statement. I've read your report. Do I understand your report to conclude that it's both too early to make a determination on the value-for-money aspect of this deal overall, and that there just were aspects and complexities that precluded you from making a final determination on that front? Is that the way I read your report generally?

Mr Peters: Yes, it's both. It's a number of assumptions. For example, the assumptions we show in our report on page 13, which talk about the changes of assumptions on the revised present values, show there are quite a number of variables that have to be taken into consideration, and, because they are future variables, it's tough to conclude at this point. But what we did find is that there had been due diligence in dealing with this at that time.

Mr Conway: On page 2 of your statement, and in your report as well, you make clear that the lease arrangement that the Ontario government made with Bruce Power will in fact negatively impact, in the short term at least, the stranded debt of the old Ontario Hydro. Correct?

Mr Peters: That's what OPG has said in its own annual report.

Mr Conway: And you accept that?

Mr Peters: Yes.

Mr Conway: The figure that is cited from the OPG report is $214 million. Do we read that to mean that the stranded debt is increased by that amount?

Mr Peters: No, it would be somewhat different. Under the transaction, under the stranded debt defeasance plan, OPG, Hydro One, IMO and all the successor companies of the old Ontario Hydro are supposed to turn their earnings over to the Ontario Electricity Financial Corp in order to help it defease the stranded debt and, in effect, in order to pay off the debt of OEFC. It simply means that the amount that was available was reduced. But that may not necessarily impact on the bottom line to the full extent of the $214 million, because it's the combination of Hydro One and everybody else. This $214 million, in net, has reduced the earnings that were turned over.

Mr Conway: Two further questions, very quickly. On page 4 of your report you note that under the specific arrangements of the lease agreement, on May 11, 2001, Bruce Power paid $370 million to the Ontario government.

Mr Peters: That's right.

Mr Conway: On page 4, you indicate that that money is supposed to be paid—passed through, basically—by the government to the Ontario Electricity Financial Corp.

Mr Peters: That's right.

Mr Conway: But as of the writing of this report, which is presumably a full year or thereabouts after the payment was made by Bruce Power to the Ontario government, your information is that the Ontario government has not yet passed that $370 million through to the Ontario Electricity Financial Corp.

Mr Peters: Yes, that's right. It hadn't been paid at the time we wrote this report.

Mr Conway: So the Ontario government's books are showing a $370-million item, which was received over a year ago, that is supposed to have been passed on to the Ontario Electricity Financial Corp for the stranded debt?

Mr Peters: Yes. It was our understanding that it should have been passed on and it had not yet been done.

Mr Conway: A final comment: the committee sent you to Bruce, but you seem to have some very telling and troubling things to say about Pickering. I note, for example, that in your report you use the lease and compare it, sensibly, to the status quo, and you describe the status quo as a condition whereby Ontario Power Generation would have continued to operate the nuclear power stations after a fashion at Bruce as they are doing at Darlington and Pickering. Is that a fair representation?

Mr Peters: That's right.

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Mr Conway: I want to go to the final paragraph of your statement: "Finally, the fact that the terms of the assignment allowed us to look at the Bruce transaction only after it was a 'done deal,' as well as the fact that we were satisfied with the process followed in conducting the lease transaction preclude us from making recommendations regarding the transaction." Now this is really important: "However, I would urge the government," and presumably the Legislature, "to take a very active interest in the cost overruns and delays being experienced in restarting Pickering A. The delays could drive up electricity prices, and the cost overruns can negatively affect OPG's cash flows and its contributions to reduce the stranded debt."

Could you help me and the committee understand more fully what we need to take from your warning here about Pickering?

Mr Peters: Firstly, I quite carefully phrased that with the word "reported." We did not do an audit or examine what is happening at Pickering. But the reported facts about Pickering are that apparently the costs have gone from $800 million to $2.2 billion, and there's also a delay in the starting up of the plants such that, for example, last summer OPG had to purchase power from abroad to meet peak demand in the province of Ontario.

What I did link it to was the fact that we were told the other considerations that were given to accepting the Bruce deal were that it would free up resources of OPG to better operate and improve its other nuclear plants. This is why I made the linkage between freeing up the resources of Bruce and what is currently happening at Pickering.

Mr Conway: So it's fair to conclude from your observations that, as Provincial Auditor, you're concerned about the reports coming out of Pickering about delays and cost overruns and the impact, particularly of those cost overruns and delays, on electricity prices, stranded debt and related issues?

Mr Peters: Yes. They bear active supervision.

Mr Bruce Crozier (Essex): Just one quick question, Mr Peters, because there are some subtle parts of the report that I don't want us to miss. On page 19, under "Nuclear Plant Decommissioning and Waste Liabilities," you point out that as of December 31, 2000—and we're now about a year and a half after that—there was an unfunded liability with a present value of about $3.6 billion. Can you explain for me and the committee the significance of that unfunded liability?

Mr Peters: What it represents is the amount that OPG had set aside for nuclear plant decommissioning and disposal of nuclear waste at the time of decommissioning. This amount was, at the time, measured for the nuclear fleet to be in the range of $6.2 billion. That was after taking a segregated fund balance of $781 million into account, of which $300 million was allocated to the Bruce facility.

Also, as part of the reconstruction, $2.6 billion of this amount was allocated to the Ontario Electricity Financial Corp and features, therefore, in the stranded debt of the province. Does that answer your question? I hope it does.

Mr Crozier: Well, kind of. Sure it does. At the beginning of that paragraph, when you point out that the present value of the total liability for committed costs is $7 billion, and we talk about stranded debt and total debt being in the area of $28 billion, would that be in addition to that?

Mr Peters: No, $2.6 billion is in the stranded debt and the balance is retained by OPG.

Mr Crozier: OK.

Mr Richard Patten (Ottawa Centre): My question deals with the wholesale price of electricity and your commentary on the interjurisdictional charges, particularly as we have Michigan and New York linked to our grid. That says to me that what we're heading for long-term is really North American prices. The idea of having some independence in our pricing arrangements is probably going to go out the window as the grid becomes more interrelated with some of the neighbouring states.

First of all, you comment that the predictability of prices right now is the usual population trends, weather or that kind of thing. But the prognosis for electricity in the United States, and also in Canada, I guess, is that there are upward pressures in the long term, are there not, and will this not lead essentially to a North American price structure?

Mr Peters: I can probably agree with the last part of your sentence, that there will be some sort of convergence. Whether it will go up or down, I would be speculating. I don't think I would be willing to speculate whether the price structure will go up or down. Convergence is what we put into the report, and that's probably the way—

Mr Patten: In other words, we're going to be paying American prices.

Mr Peters: Yes. But currently, for example, some of our neighbouring states have lower electricity prices.

The Chair: Mr Bryant, you have two minutes left.

Mr Michael Bryant (St Paul's): You make reference in the last paragraph to the fact that you only went in after it was a done deal in Bruce. Is it your recommendation that for future commercialization or future electricity reform on the generation or the transmission side, the auditor should be getting involved before it's a done deal?

Mr Peters: We normally don't, because we think that's a management prerogative. I made that statement only to explain that we were charged by the committee to both report our findings and make recommendations. If we had found, for example, that the process was flawed, we would have made recommendations—after the fact, admittedly—so that this could be taken into consideration in future deals, but that would be the preferred way for us to proceed.

Mr Bryant: Preferred, but you could get involved before it's a done deal?

Mr Peters: No, preferably not. Under the terms of independence of my office, I don't think we should get involved in management decisions before they're made.

Mr Bryant: The other question is with respect to the value of the perceived benefits of the Bruce deal being put into question by what's going on in Pickering. Could you expand on what you mean by that? How is it that the perceived benefit in fact has been compromised by what's happening in Pickering?

Mr Peters: They have said that one of the benefits would be that they could now focus on doing the job better at the other nuclear plants. What I wanted to bring out is that there are concerns expressed, or at least being reported, about what is going on at Pickering. I wouldn't say it's compromised, but I would say it bears watching.

Mr Bryant: I understand that, but you did say that the value of the perceived benefits was being put into question. I understand it bears watching, but in what way is it being put into question?

Mr Peters: There is also an underlying difficulty. If you had more staff or more resources now to operate your nuclear plant—but there were some considerations that we found. For example, at the Bruce plant only 200 people were retained by OPG. Like, 3,000 joined Bruce Power. So we started to look at the resource question in that particular regard. The other one is also that since the deal was started on May 11, 2000, and these reports about Pickering are coming out since that time, I use the words "puts into question" really to put you on notice.

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Mr Howard Hampton (Kenora-Rainy River): Mr Peters, I wanted to ask you, first of all, about your point where you indicate that the decision to lease "will have a negative impact on the stranded debt.... Using OPG's own words, 'The contribution to net earnings from the Bruce nuclear generating stations has decreased by $214 million before tax in 2001 compared to 2000.'" You then point out that you'll have to look at this in the future because other factors will come into it. But that's just a one-year figure. That's a $214-million loss, as I understand it, to bringing down the stranded debt in one year. Looking ahead to 2002-03, are you able to give us any sense—will the contributions to stranded debt continue to be less than they would have been had OPG and the government retained control?

Mr Peters: Numerically, it will reduce. The $214 million is in two aspects a one-shot deal. First, it is the only year in which they actually operated the lease and the plant, and they compare 2000 with the plant. They won't be able to do that in future because Bruce is gone.

The second part is that there were significant amounts in there. For example, it also included the spare parts inventory and other pieces that were ancillary to the plant that were transferred over. That was included, for example, in any variation in the book value, and the net realizable value was included in this $214 million.

The second point is that in that year the variable portion of the lease payments did not kick in. So in future, as the variable portion kicks in, the lease payments will increase and therefore the potential reduction in earnings that they have given up will be less, but it will be there.

Mr Hampton: Can you estimate how much that reduction will be?

Mr Peters: I would have to take a crystal ball, and mine is no better than anybody else's on that one, but it definitely is a reduction.

Mr Hampton: Do you regard it as significant that the loss—in other words, the reduction in payments on the stranded debt in one year—is $214 million less? Do you regard that as a significant reduction when you consider these leases run for 18 years?

Mr Peters: It is a big amount, but it is very tough to measure the trade-off in risks that has actually taken place. What risk is the taxpayer taking by having OPG continue to operate the Bruce facility versus leasing it out? What we're pointing out is that the risk is reduced, but that means they reduce both: the upside of higher earnings as well as the downside of lower losses.

Mr Hampton: I want to ask you a question that you referred to in your report. It is a press release by British Energy, and basically they report that they acquired the assets of Bruce Nuclear on May 12, 2001. They then did a report of profit on March 31, 2002, and they indicate that $100 million of their profit in that nine-and-a-half month period came from Bruce Nuclear. A $100-million profit in nine and a half months seems like a fairly significant profit.

Mr Peters: It also depends on the measurement of the profit, as to how they deferred costs and how they determined their net earnings in this particular period of time. We were interested in their number and of course have put it into our report. But since that time I understand that in the first quarter of 2002, Bruce has reported losses. We also understand there is a significant outage in the second quarter. So it made it a little bit less appropriate, if you will, to put it into our overall conclusion. It also points to the significant risks that were shared between the two partners.

Mr Hampton: I want to take you to page 13 of the report. You estimate that if electricity prices increase by only 10%—and let's be clear, these are wholesale electricity prices. If the wholesale electricity price increases by only 10%, what the government would have gotten, by your calculations, is $565 million more money.

Mr Peters: That's right.

Mr Hampton: They would get more under the lease. They would get about $280 million more under the lease, but they would have gotten $565 million more if they had retained control.

I've been out there talking to school boards, hospitals and the Toronto Transit Commission. All of them are saying that when they talk to their advisers, their consultants, the consultants are all saying, "Look at at least a 10% increase. Start budgeting for at least a 10% increase in your electricity costs, and more likely a 20% increase in your electricity costs."

I just happen to have a piece—this is Alberta—from the National Post, May 30, 2002. The headline is: "Power-trading firms can manipulate prices." They talk about how profit-driven companies in Alberta are withdrawing some of their generating capacity to drive up the price. A 10% increase in wholesale hydro prices: is that an unreasonable projection to make?

Mr Peters: I should back you off a little bit, because they did have advice on electricity prices. They already built price increases into their calculations as they were going along. What we are talking about here is a 10% increase over and above the assumptions they have already made in there. So it's not just that it's the current price plus 10%. It really relates more to the fact that when they did it, they had an electricity price curve they took into consideration in making their calculations. What we are pointing out here is if there is a 10% increase over and above the price they estimated, that would be the impact.

Mr Hampton: The excerpt you include on page 15 of the article, where you cite, "Primary factors affecting the wholesale price of electricity"—I just want to get your comment on one part of it. This is about generating costs: "However, in the long term, increased demand is expected to make the full cost of generation (the marginal cost of generating electricity plus an amount sufficient to cover" overhead costs "and a return on investment) the more important influence." So in terms of people's electricity prices, the cost of generating power is going to be the major determinant?

Mr Peters: Yes, it's a major component of the price.

Mr Hampton: Then just a little further up, it says, "It is the view of forecasters that over time, and subject to intertie capacity and interjurisdictional charges, the price of electricity in Ontario and its neighbouring states will converge."

Mr Peters: That's right. That's an explanatory comment we provided.

Mr Hampton: I just want to ask one other question here. You note in your discussion that there is another way of valuing electricity generation assets; it is by comparative pricing. But you said you didn't use that method because American nuclear plants are physically different from Candu reactors and because some of the regulations are different in the United States. Is that right?

Mr Peters: Yes, and other factors; for example, age of plants and things like that.

Mr Hampton: What I find interesting is that other people have looked at the comparative valuation. If you look at US atomic plant sales announced during the year 2000—when this one was announced—the price for nuclear plants ranged from US$365 per kilowatt hour of capacity to US$515 per kilowatt hour of capacity. If you look at the Bruce generating station, all in, it would have worked out to about US$200 per kilowatt hour of capacity. Is that a fair—

Mr Peters: The side question was whether Bruce B and Bruce A were included.

Mr Hampton: No, That's the all-included. That's Bruce A and Bruce B.

Mr Peters: OK. Fair enough. Do you think that's right?

Mr Gary Peall: Approximately.

Mr Peters: Yes.

Mr Hampton: What I find interesting is when I read some of British Energy's press releases—and I think you actually point this out in your statement, too—even though Bruce A is, for all intents and purposes, down, British Energy regards Bruce A as having huge upside potential. Is that a fair assessment?

Mr Peters: That's what they say. We have to be alert to the fact that they are communicating with their shareholders and are asking their shareholders for a massive investment.

Mr Hampton: The last time I checked, when you communicate with your shareholders you're not allowed to make misleading or untruthful statements. Otherwise, you can go to jail for 10 years.

Mr Peters: I'm not challenging their truthfulness. I'm saying they are justifying with that statement a $1.2-billion investment that they're looking.

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Mr Hampton: I also understand when I read the press reports—I think it was Merrill Lynch that advocated, after the signing of the Bruce deal with British Energy, that investors go out and buy British Energy shares because British Energy got such a good deal on Bruce A.

Mr Peters: It certainly looks very good for them right now, but as I pointed out, the first quarter of 2002 isn't that good and we don't know what will happen in the future.

Mr Hampton: I would say to people who are out there looking at the speculative energy market, we're at a time period when people don't need to turn the lights on at 6 o'clock in the evening because it's still light out, you don't need to have the electricity on for heat because it's not cool enough and you don't have to have the electricity on for the air conditioning because it's not hot enough. This is a period where people aren't going to be using a lot of electricity. With most of our softwood lumber mills and a lot of our paper mills shut down because of the American duties, there's not a lot of electricity being used there. But those aren't normal circumstances. Would you agree with me?

Mr Peters: I agree with you. Also, a smart operator would probably use that period of time to do most of the maintenance and overhaul.

The Chair: One final question, Mr Hampton.

Mr Hampton: I just want to go back to your statement, which is included in your opening statement but is not part of the study, where you refer to Pickering. At the bottom of your statement, you say that because of what has happened at Pickering, and I think this is the last sentence, "The delays could drive up electricity prices."

Mr Peters: That's right.

Mr Hampton: Can you elaborate on that and what impact that would have in terms of the Bruce energy deal?

Mr Peters: It's a tough one to answer for one reason: we don't know what deals Bruce has struck for its output.

If some operators actually enter into long-term arrangements, like when they go into a deal like this, they may strike supply deals or deals with potential suppliers to secure a certain revenue stream themselves at that time. We don't know whether Bruce has done that or what the price structure of those consists of.

On the other hand, the performance of OPG itself was not quite as expected for the last fiscal year. One of the reasons was that the original plan, if I understand correctly, was that Pickering A would be on stream by March 2001.

Mr Hampton: So in your view, is there is a significant possibility or likelihood or potential that we could in fact see the market conditions for significant increases in the price of electricity?

Mr Peters: That would be speculative. I'm dealing more with what actually happened last year, where we were in a situation where OPG actually had to go outside and purchase power. It is speculation on my part because I haven't examined it, but I think those purchases would at least have been reduced if Pickering A had been on stream. In fact, they would have had their power to put into the market.

Also, the normal earnings performance of OPG, of generating facilities, be they fossil fuel or nuclear—it doesn't make much difference, but normally you expect low earnings or even losses in the winter and high earnings in the summertime at peak consumption. The hope was that the plant would be on stream at that time.

The Chair: I'll have to leave it at that.

Mr Bart Maves (Niagara Falls): Thank you, auditor. I can't wait to get the Hansard for this because, effectively, Mr Hampton has just argued for the status quo and higher prices to reduce debt, and Mr Conway is arguing to privatize Pickering because Bruce is more efficient operationally on the capital side.

Mr Conway: With all due respect, sir, that's not what I said.

Mr Maves: I know you didn't say it, but that's what you argued for.

Auditor, returning to the report, you said that over a 14-year period it looks like the province will get $170 million less revenue. Of that, $160 million goes to the federal government in taxes, correct?

Mr Peters: That's right.

Mr Maves: So rather than accruing to the provincial government, it will accrue to the federal government. The upside that hasn't really been talked about—and you talked about direct and indirect benefits in your report—is that we've already received in this province $800 million in capital investment to refurbish and bring Bruce B on-line, is that not right?

Mr Peters: Or will be investing—I'm not sure what state they're in. But you're right.

Mr Maves: Also, they're investing another $400 million of that in Bruce A—which is another 1,500 megawatts—which OPG had no intention of bringing back on-line when we went into this. So we're getting a $1.2-billion capital investment from this firm and, with that, more power on the grid, correct?

Mr Peters: That's right.

Mr Maves: When you get increased power on the grid, you get more supply and a lower price. The price for power right now is already down about 30%, on average, in Ontario. One of the things you said in your report, in the chart on page 13 which Mr Hampton talked about, was that the province received substantially reduced risk and more stable prices. If I take a 30% decline in price, which is what we've experienced, under the status quo the province would have received $1.7 billion less, whereas under the lease agreement it would receive about $765 million less. I'm just multiplying those numbers by three. Is that not correct?

Mr Peters: I'm not sure about the factor of three, but there certainly is a price—why I have difficulty answering that question is because I'm not sure what price assumptions they made in the actual calculation; what the base price assumptions were. They may have already discounted or reduced the electricity price on market deregulation in their assumptions. What I want to point out is that table 4 really reflects a departure from the assumptions that they made. If the assumptions were to change by these percentages, that is what would happen. I hope I'm not confusing you too much.

Mr Maves: By keeping Bruce OPG-owned and -operated, the benefit of a price increase accrues entirely to OPG and therefore the province; that's why it's a higher number. But when you lease it out, you get less accrual. On the flip side, though, we've protected ourselves from a loss if the price goes down.

Mr Peters: That's right.

Mr Maves: And we want the price to go down, because we want our consumers to pay a lower price. That's why you said we've reduced risk substantially and guaranteed ourselves more stable revenues.

Mr Peters: That's right.

Mr Maves: Another thing that's in your report, and again this kind of speaks to Mr Conway's comments, is that you said one of the key things was that OPG wanted a world-class operator because it would provide a benchmark with which they could benchmark their own facilities. Bruce B was operating at 79% capacity. It's now operating at 83%. It speaks to Mr Conway's point about efficiency. Similarly, on the capital side Bruce Power has said it will take $340 million to $400 million to bring Bruce A on, whereas the capital expenditures assumed to bring Bruce A back on by OPG were higher, $600 million. Indeed, Bruce Power has invested money on the capital side and already started to realize enhanced production from Bruce B, whereas Pickering is still at work.

Your concern was that they are supposed to spend more time and attention on Pickering, and even though they're spending more time and attention on Pickering, it's taking longer for them to get it up and going, correct?

Mr Peters: That's right.

Mr Maves: Whereas the private operator is turning around very quickly and at a lower cost. That's why I say Mr Conway's argument is basically in favour of Bruce Power taking over Pickering.

Mr Conway: I didn't say that.

Mr Maves: He didn't say that; those weren't his words.

Mr Conway: There are some very interesting issues arising out of this report about Pickering that we should explore; I agree with that.

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Mr Maves: It's my time, Mr Conway.

Mr Conway: You can't just throw these—

Mr Maves: Sure I can.

Mr Conway: —misrepresentations.

Mr Maves: No, I did say I can't wait to get the Hansard.

The Chair: Do you want to debate this with Mr Conway, Mr Maves?

Mr Maves: No, no.

The Chair: OK. You've got the floor.

Mr Maves: I'm going to turn some of my time over to Mrs Munro and Mr Hastings.

Mrs Julia Munro (York North): One of the things that I feel is important to clarify here—much discussion has centred around the table on page 13. It seems to me that the importance for us in examining this is to look at the fact that it's an apples-to-apples chart. While we can talk about the fact that it is based on assumptions, the key here is the fact that it's based on a common set of assumptions. So to take one number out is to take it out of the context of the legitimacy of the assumptions.

I think the important thing for us to understand is that by this you are demonstrating the fact that the decision made by the government to look at a lease plan that provided less risk is in fact demonstrated by the kind of assumptions that you have put here. I consider that to be extremely important to the validity of the whole project, because that was why you were asked originally to look at this.

I wonder, though, when you were looking at taking into account the kind of impact this had, whether your report would also include anything to do with the kind of increased economic activity in the community. We were told by Bruce Power that the benefit of their increased investment comes to somewhere around—obviously new dollars in the community and also a significant increase in employment. I wondered if any of those assumptions had been built into your report.

Mr Peters: First I'll make a comment and then, Gary, if you want to make any additional comments.

At the time when this assessment was carried out, those were not, if you will, on the books yet. These are subsequent events. We were looking at the transaction and its approval. So subsequent events were not taken into consideration, although in our discussions with both the shareholders' representatives and the OPG senior management, they put in the point you're making, that there would be a benefit from their investment and overall the province would be ahead.

Mrs Munro: Earlier you referenced the fact that being asked to do this at this particular time is something of a work in progress, and I appreciate that that would be part of it.

We have an idea in terms of the potential for Bruce A, and I wondered whether or not your report placed any kind of dollar figure on the ability of Bruce A. I think that in here you refer to the potential of Bruce A coming on stream. Is there anywhere in your report where you place a figure on the benefit of that?

Mr Peters: On the benefit of putting Bruce A on stream?

Mrs Munro: Yes.

Mr Peters: To begin with, under the mandate we deliberately restricted ourselves to the way Bruce A was calculated. What we are pointing out is that Bruce A— they only took the layout costs into consideration at that point.

The other part would be very difficult for us to do, because it really required an almost independent engineering study. As you can tell, the experts are already way apart on this one. The experts at OPG said it would cost $600 million, and the experts at Bruce Power said $400 million. We don't have the expertise to contradict either.

Mr John Hastings (Etobicoke North): Mr Peters, you were assigned the task by public accounts from Ms Martel's motion to examine all the parameters of the Bruce deal. I think there are some unrealized and disappointing expectations coming out of this report.

The question I wanted to ask you revolves around the auction process. Did we have an effective, businesslike, industry-standards type of auction process in determining whether British Energy should be the highest bidder?

Mr Peters: Yes, we did. We concluded that the process was in accordance with industry standards and was properly conducted.

Mr Hastings: As you show in the report on page 7.

Mr Peters: That's right.

Mr Hastings: What I'm most curious about, though, is Bruce A. Bruce A is at this moment mothballed. It's sitting there as an asset, as your report indicates, with a negative financial value because they're not producing any power, correct?

Mr Peters: That's the assumption. When the calculations of cash flow were made, that's what they assumed.

Mr Hastings: There's a certain premise in the so-called debate around the Bruce deal that if OPG were operating Bruce A, we would obviously have more power. Why is it, then, that Bruce A isn't being operated by OPG and that OPG has concluded, based on the figures in the documents they provided you, it would cost at least $600 million to get the thing going again? Why isn't OPG doing it if it's such a great unrealized opportunity, as Mr Hampton asserts? Why isn't OPG doing it right now?

Mr Peters: That is for their board and the shareholders to decide. They went forward with these numbers to the board and the shareholders and they decided they would not proceed.

Mr Hastings: So how is Bruce A, mothballed as it is, producing any positive impact on reducing the stranded debt by not operating?

Mr Peters: At this particular point in time?

Mr Hastings: Yes.

Mr Peters: It is actually a drain on the earnings of OPG because of the lay-up costs.

Mr Hastings: That brings us back to the whole premise of this report. What is it entitled? What were you tasked to do by the committee?

Mr Peters: We were asked to report whether—

Mr Hastings: To deal with the nuclear problem at Bruce, right?

The Chair: The motion, as set out on October 12, precisely said what he was instructed to do.

Mr Hastings: Exactly. Does that motion have anything in it that the committee tasked you, as a public auditor, to look at Bruce and Pickering together?

Mr Peters: No.

Mr Hastings: Precisely. Thank you.

The Chair: With that, you've used up your time.

In the last two minutes the committee has, is it the wish of the committee to continue with this report next week? We've had a verbal request—and it's just a verbal request so far—that the Minister of Energy wishes to address the committee on this matter.

Mr Maves: I don't think that's an accurate accounting of his verbal request.

The Chair: I just want to let you know there may be people who want to appear in front of this committee on this issue. So it's up to the committee to decide whether you want to continue this next week or whether you want to go back and do report writing.

Mrs Munro: I would just suggest to you that we really do have an extraordinarily busy schedule for the rest of our designated sitting time, in terms of our other responsibilities.

The Chair: I'm sorry. Did you want to continue next week or not?

Mrs Munro: No.

Mr Maves: Let's stick with the schedule, and then, at a future date, if we want to, the subcommittee can talk about it.

Ms Shelley Martel (Nickel Belt): I would prefer to deal with this again next week, so I'm raising a different point of view.

The Chair: If there's no motion, then the schedule will be proceeded with.

Mr Hastings: It's a matter for the subcommittee to deal with, Mr Chairman.

The Chair: The problem is that the subcommittee meets next Wednesday, and if the subcommittee report is endorsed, or whatever, on Thursday, obviously there's nothing that can happen on Thursday, because you can't all of a sudden put something in motion on a moment's notice.

Ms Martel: I'll move a motion that the standing committee on public accounts meet next Thursday morning to continue its consideration of the special audit done by the auditor on the Bruce nuclear transaction.

The Chair: Is there a seconder?

Mr Patten: I second it.

The Chair: All in favour of that motion?

Ms Martel: Recorded vote.

Clerk of the Committee (Ms Tonia Grannum): You know what? You can't make that motion.

Interjection: She can't make that motion?

Clerk of the Committee: Yes, because you're not subbed on.

Ms Martel: But I'm a committee member.

Clerk of the Committee: I've got a sub-slip from Mr Hampton for Ms Martel for the duration.

Interjection: Then I'll make the motion.

The Chair: OK.

Mr Maves: The motion will be that the standing committee on public accounts continue with its schedule as planned.

The Chair: Is there a seconder for that?

Clerk of the Committee: No seconder.

The Chair: OK, no seconder. But just for the record, the way we had it planned is that we would continue with report writing, but we also stated that if the committee continues to deal with the Bruce request in subsequent meetings and draft reports, we will push back a week. So it was tentatively on the agenda as well, but you're basically suggesting that we go into report writing next week.

Mr Maves: That's right.

The Chair: OK.

Ayes

Hastings, Maves, Munro, Stewart.

Nays

Crozier, Patten.

The Chair: That's carried.

Thank you very much for attending.

The committee adjourned at 1201.

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STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chair / Président
Mr John Gerretsen (Kingston and the Islands / Kingston et les îles L)

Vice-Chair / Vice-Président
Mr Bruce Crozier (Essex L)

Mr Bruce Crozier (Essex L)
Mr John Gerretsen (Kingston and the Islands / Kingston et les îles L)
Mr John Hastings (Etobicoke North / -Nord PC)
Ms Shelley Martel (Nickel Belt ND)
Mr Bart Maves (Niagara Falls PC)
Mrs Julia Munro (York North / -Nord PC)
Mr Richard Patten (Ottawa Centre / -Centre L)
Mr R. Gary Stewart (Peterborough PC)

Substitutions / Membres remplaçants
Mr Sean G. Conway (Renfrew-Nipissing-Pembroke L)
Mr Howard Hampton (Kenora-Rainy River ND)

Also taking part / Autres participants et participantes
Mr Erik Peters, Provincial Auditor

Clerk / Greffière
Ms Tonia Grannum

Staff / Personnel
Mr Ray McLellan, research officer,
Research and Information Services
Mr Michael Brennan, Office of the Provincial Auditor
Mr Gary Peall, Office of the Provincial Auditor