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Auditor General:
Ministry of Energy

Chair: Norman W. Sterling
Clerk: Katch Koch

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ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

STANDING COMMITTEE ON PUBLIC ACCOUNTS

COMITÉ PERMANENT DES COMPTES PUBLICS

Tuesday 13 February 2007

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The committee met at 0929 in committee room 1, following a closed session.

2006 ANNUAL REPORT, AUDITOR GENERAL

MINISTRY OF ENERGY

Consideration of section 3.07, acquisition of goods and services.

The Vice-Chair (Mr. Ernie Hardeman): I guess it is 9:30, so we'll call the standing committee on public accounts to order. We're here this morning to review section 3.07 of the 2006 annual report of the Auditor General, Hydro One Inc., acquisition of goods and services. We have here this morning with us the deputy minister. If the deputy would come forward and introduce the delegation, we would appreciate that, and we'll proceed from there.

Mr. Peter Wallace: Thank you very much. I'm Peter Wallace, the Deputy Minister of Energy. With me today is Rita Burak, who is chair of Hydro One. Rita, if you could do the other introductions, I'd appreciate that.

Ms. Rita Burak: Joining us today is Laura Formusa, our acting president and CEO. Laura, by the way, was previously general counsel and has been with Hydro One and its predecessor company for over 27 years. Also joining us today is Beth Summers, the CFO of the corporation. Beth is a chartered accountant and she has been with Hydro One for the past six years.

The Vice-Chair: Thank you very much, and, Deputy, if you would make your presentation.

Mr. Wallace: I will. Thank you very much, Mr. Chair. We're pleased to be here today on behalf of the Ministry of Energy. We'd obviously like to thank the standing committee on public accounts for providing this opportunity to address some of the issues in the Auditor General's report on Hydro One. This is an excellent opportunity to tell you about the changes that are being made as a result of the recommendations made by the Auditor General and to speak about the other activities that the ministry is undertaking.

The ministry fully supports and appreciates the work done by the Auditor General in completing the first value-for-money audit of Hydro One. It has been an important contribution for my ministry and, I believe, for both Hydro One and the Auditor General as well.

Ontario's electricity system, as you know, is a blend of both private and public sector organizations, and in fact combines both private and public sector management approaches. Hydro One is an important publicly owned institution. It is regulated by the Ontario Energy Board. Hydro One provides what is, in effect, a monopoly service. That monopoly service is the transmission infrastructure which serves virtually all of Ontario's consumers and all of its energy producers. These energy producers include Ontario Power Generation, which is also a crown-owned entity. OPG operates approximately 70% of the province's electricity generation.

Private generators are, however, now playing an increasingly important role, particularly in new and cleaner generation of electricity through natural-gas-fired plants and through renewable energy as well. The Bruce nuclear facility is still publicly owned but is operated by Bruce Power, which is a private company.

Together, OPG and private operators provide an overall plant capacity of over 31,000 megawatts and have great reliability to meet Ontario's electricity demands. As both major and smaller new generating facilities are developed and dispersed increasingly across the province, there is an even greater need for a well-managed, responsive and reliable transmission system.

The critical link in ensuring Ontario's electricity reaches the almost 100 municipal utilities and, ultimately, over four million electricity customers is Hydro One. Hydro One Inc. was established as a commercial corporation in the Electricity Act of 1998. It is incorporated under the Ontario Business Corporations Act by articles of incorporation dated December 1, 1998. The corporation itself became operational on April 1, 1999.

Hydro One is expected to operate at arm's length from the government, with flexibility to make its own operating and investment decisions. This includes access to capital markets for borrowing. An important factor is that Hydro One borrowing is not guaranteed by taxpayers of the province. However, while Hydro One has a commercial structure, it is also entrusted with a critical public service. As such, all of the shares of Hydro One are owned by the province and the company continues to enjoy the tax-exempt status accorded government property. That means that payment in lieu of taxes help write down the multi-billion-dollar debt legacy of Ontario Hydro.

Both legislation and a shareholder's agreement between the province and Hydro One define Hydro

One's responsibilities. The government's expectations of Hydro One include:

—disclosing the names and salaries of those who earn more than $100,000 annually;

—meeting, as required, with the standing committee on provincial agencies;

—compliance with freedom-of-information requests;

—providing advance information of a strategic nature or that could impact the performance of the corporation or its subsidiaries;

—consulting with the shareholder with regard to the preparation of multi-year business plans;

—delivering financial reports on a quarterly basis;

—seeking approval on any transfer of shares, proposed sale of assets or any other major transaction that could materially affect cash flow, financial interests of the province and payments made in lieu of taxes;

—delivering copies of agendas and minutes of board meetings within a prescribed period of time; and

—responding promptly to information requests from the government.

In addition, under the Business Corporations Act, with the minister as shareholder, the province appoints the Hydro One board of directors and, of course, the chair. It is the board's responsibility to oversee the governance and day-to-day management and operations of Hydro One. The board, in this regard, sets corporate policies with respect to procurement and expense reporting and is also responsible for ensuring that such policies are followed.

It has been the practice for the Minister of Energy and the deputy minister to meet on a regular basis with the chair of Hydro One to discuss issues of interest to the government as shareholder. The Ontario Energy Board, as you know, regulates agencies in the energy sector, including Hydro One. As such, the Ontario Energy Board is responsible for reviewing the costs incurred by Hydro One and determining what portion of the costs can be passed on in transmission and distribution rates.

Transparency is seen as an important safeguard of public service. In this regard, Hydro One and Ontario Power Generation are subject to the Audit Statute Law Amendment Act of 2003, which expanded powers of the Provincial Auditor to conduct value-for-money audits for the first time of the broader public sector and all crown corporations, including Hydro One and its subsidiaries.

The first-ever Auditor General's report on Hydro One has identified important concerns with regard to the compliance of Hydro One's procurement practices and expense reporting. The ministry clearly supports the Auditor General's overall recommendations and recognizes their significance for Hydro One and in fact for other crown corporations as well. Hydro One has taken a number of steps to implement the Auditor General's recommendations regarding better enforcement of corporate governance policies. We will continue to work with Hydro One and monitor Hydro One and listen to the Auditor General's recommendations on areas that can be strengthened.

I think we can all appreciate Hydro One's success in managing what is a critical element of Ontario's economic and societal infrastructure. Hydro One has continued to show solid financial results while at the same time investing to upgrade and maintain its transmission and distribution networks. As a result of the Auditor General's report, we feel strongly that Hydro One is now on an even more sustainable course for the future.

I will now turn the discussion to Ms. Rita Burak, chair of Hydro One, who will provide details on Hydro One's progress in implementing the Auditor General's recommendations.

Ms. Burak: Thank you, Deputy, and, through you, Chair, thank you to the committee for the opportunity to appear before you today.

I'm pleased to tell the committee that the company has accepted all of the recommendations in the Auditor General's report and has been in the process of implementing a number of them for several months.

We will be dealing with two sets of issues today. Ms. Formusa will speak to specific issues of compliance improvements with Hydro One policies. But before that, I will deal with issues relating to the departure of the former president and CEO, which followed on the auditor's report.

0940

I want to deal up front with a number of questions I know members will want to ask: questions about CEO pay, severance arrangements, use of expenses, board accountability and the performance of the chair.

The first question that might be asked is: Why was the former president and CEO paid so much? When Hydro One was created, expectations were to privatize it, so executive salaries were set at rates comparable to the private sector. I remind the committee that Hydro One was created, after the breakup of Ontario Hydro, as an Ontario Business Corporations Act company with a commercial mandate. While the board of Hydro One certainly made reductions to compensation in 2002, we retained an essentially private sector company comparator basis for compensation.

The government has now established the agency review panel. Its first order of business will be to review executive compensation in all of the energy companies and agencies. Importantly, the panel is asked to consider comparable public sector organizations in their review. We understand the significance of this mandate and look forward to working with the panel.

A second likely question is: Why did the former CEO receive a severance package when he resigned? The board agreed that his departure would be in the best interests of the company and elected to honour the severance provisions of his contract, which allow the company to terminate his employment without notice for any reason whatsoever, in which case he would be paid a severance. The former CEO was not fired for cause. While the issues raised in the Auditor General's report relating to the CEO should not have happened and were viewed very negatively by the public, they were not legal grounds for dismissal for cause.

The former CEO, in discussion with the board, elected to resign so that his presence would no longer be a distraction for the organization. In the aftermath of the Auditor General's report, specifically the issue relating to CEO expenses on an assistant's credit card, the board presented the former CEO with the circumstances we were faced with. Both the former CEO and the board concluded that his continued employment as CEO was untenable.

In light of the fact that the company will be submitting its next annual information filing, including information on executive compensation, with the Ontario Securities Commission within the next two weeks, I would like to confirm that the value of his severance package is approximately $3 million: essentially, a representation of 24 months' earnings and consistent with the severance provisions of his contract, which have previously been disclosed in our annual information filings with the OSC.

On the third question: What was he doing with his expenses? The AG found that there were certain business expenses on the credit card of the assistant to the CEO which related to the CEO and which he approved, and this should never have happened. The CEO presented the board with a summary of the expenses mentioned in the AG's report when it was received by us. He informed the board that all of the expenses relating to him were legitimate business expenses.

On a monthly basis, I as chair reviewed and approved the former CEO's expenses and was always presented with legitimate business expenses. A more detailed review of the expenses of the assistant, undertaken after the CEO's departure, determined that—with one exception, and that is, certain transportation expenses for which the former CEO has now reimbursed the company—the expenses relating to the CEO were in fact business expenses. The problem was that the business expenses in question should have been dealt with either on his card or through other methods of payment. Nevertheless, this should never have happened.

We have since established a procedure to ensure that this will not happen in the future. From now on, subordinates' expenses will be approved by their superior's superior. In this case, it means that expenses of the assistant to the CEO will be reviewed and approved by me.

We have made one other change in this area. Currently the finance department reviews expenses for the chair and the CEO every six months and reports to the audit and finance committee of the board. Annually, the expenses of the chair, the CEO, the CFO, the general counsel, and one randomly selected direct-report to the CEO have their expenses reviewed by our external auditor, who, in turn, provides a report on findings to the audit and finance committee. The expenses of administrative assistants will now be reviewed and audited in the same way.

The fourth question members may have is: Why didn't the board resign? While we certainly take the AG's report very seriously, its key finding was that we needed to strengthen compliance procedures, not that the company was managed inappropriately. The extensive external oversight to which we are subject bears this out.

The resignation of any CEO, under any circumstances, creates issues of instability in an organization. We had a fiduciary and duty-of-care responsibility to ensure stability for the company to the greatest extent possible in a transition period. I believe we made the right decision. The credit ratings and the operations of the company have not been affected by the CEO's departure, and the transition with the acting CEO has gone smoothly.

Finally, I'll turn to a question some may wish to ask: Why am I still here? I want to assure you that I take absolutely full accountability for everything that has happened on my watch. After 37 years of serving the province in a variety of capacities, my ethic is to fix problems, not to walk away from them. In that regard, I want to repeat that we have accepted all of the recommendations of the Auditor General's report. The board has approved new policies and reviewed procedures to ensure compliance throughout the company. We have been implementing a number of these changes for several months.

As all members know, our company is wholly owned by the province and we manage this company on behalf of the people of Ontario. We understand that we operate a public trust and are expected to be stewards of this asset.

Hydro One is a public debt issuer. Annually, we borrow in the range of $500 million to $750 million without provincial government guarantee. As a result, we are the only publicly owned energy entity in Ontario that is subject to the strict financial control and disclosure requirements of the Ontario Securities Commission and the tough scrutiny of rating agencies. We are also audited by external auditors and have had extensive reviews of expenditures and operations by the Ontario Energy Board. Now we are subject to value-for-money audits by the Auditor General, and we welcome that additional scrutiny.

A lot has been accomplished at Hydro One on behalf of ratepayers, such as our focus on cost savings and productivity. Over the past five years, cost reductions at Hydro One have been significant: approximately $400 million over the period. At the same time, our capital investment in both our transmission and distribution systems has been in excess of $2 billion. We are getting more work done at a lower cost.

These productivity gains were achieved while at the same time achieving top-quartile safety performance compared to North American transmission and distribution companies. During this same period, the company also improved customer satisfaction. For large customers, our satisfaction rate went from 46% in 2002 to 86% in 2006; for medium-size customers, satisfaction has risen from 74% to 85% over the same period; and for individual residential customers, satisfaction has risen from 78% to 83%. This is a record that any company can be proud of and, we hope, one that will not be lost in the aftermath of the Auditor General's report.

I will now turn it over to Ms. Formusa, who will give you a few key examples of actions already taken to implement new policies and procedures at Hydro One.

Ms. Laura Formusa: Thank you, Ms. Burak, and thank you, Mr. Chair, for the opportunity to address this committee.

As Ms. Burak mentioned, I'd like to share with the committee members some of the key actions that Hydro One has taken to ensure compliance with our policies in accordance with the recommendations of the Auditor General.

Let me state at the outset that Hydro One fully supports and appreciates the work of the Auditor General and his staff in completing its first value-for-money audit of Hydro One. As the chair already stated, we take the findings and recommendations of the Auditor General's report seriously.

The report made 13 recommendations, and we have accepted and implemented every one. I expect we'll have an opportunity throughout the meeting today to explain the detailed actions we've already taken to implement those recommendations.

0950

The measures we've put in place are squarely aimed at addressing the issues of internal control and compliance at Hydro One. Since being named acting president and CEO, this effort has been my primary focus. Our shareholder and our customers expect and deserve transparency and accountability in all of our internal controls.

You will note that the Auditor General stated in his report that their objective was to "assess whether the corporation had adequate systems and procedures in place to ensure that goods and services were acquired with due regard for value for money and in compliance with corporate policies and sound business practices." Those systems and procedures are now in place.

I'd also like to read to you from the report's summary findings:

"We found that Hydro One generally had adequate policies in place to help ensure that goods and services were acquired with due regard for value for money. However, systems and procedures were not adequate to ensure compliance with corporate policies." Again, the necessary changes have been made at Hydro One to ensure compliance with those policies.

It's important to note from the outset that the issue here is one of compliance with our own internal policies, rather than findings of inappropriate spending. The actions we've taken specifically address the compliance issue and also ensure that our policies and procedures allow for the best business decisions to be made.

Hydro One, as you will know, is a large, decentralized organization focused on getting the job done. As we move forward, it will also be important to maintain our focus on proper documentation and adherence to internal policies and procedures. Our focus is and should be reflective of our role as stewards of the province's electricity grid. We must continue to run an efficient operation and, at the same time, ensure complete accountability to Ontarians.

It's also important to note that as a reporting issuer under the Securities Act, Hydro One is subject to the requirements of Bill 198. Bill 198 and related legislation require the company to document, test and ensure the design effectiveness of our financial control framework. We've completed our Bill 198 implementation and, as CEO, I will be certifying compliance with Bill 198 requirements, along with my CFO, in accordance with Ontario Securities Commission regulations. This certification will be publicly filed, as are all of our financial documents. This process is meant to ensure that effective controls around financial reporting are in place, and it complements the actions we're taking in response to the Auditor General's report.

Turning to that report, I'd just like to focus on three of the recommendations in my opening remarks, and we can get into the others during questions.

First of all is recommendation number 5, regarding managing and controlling the purchases of goods and services. In responding to this recommendation regarding our procurement activities, we have undertaken the following actions:

First, once we had identified that there were documentation issues, we did a full review of our procurement files to ensure that the documentation was in place. We've also put in place processes to ensure that all purchase order files and major vendor files will be properly documented. Second, we've established a compliance group to monitor our progress and ensure compliance with our policy. We revised our policy to reflect the needs of our business. Finally, we've reinforced our policy through detailed communications to our employees in order to drive a culture of compliance at Hydro One.

Turning to recommendation 8, which dealt with corporate charge card purchases: With respect to improving the administration and control over the corporate charge card program, we've taken these actions:

In all instances, sufficient documentation is required to support business expenses. This policy has also been reinforced through communications to employees. We've reinstituted our practice of sample compliance audits, which we had temporarily suspended in 2005. We've centralized the role of the local charge card co-ordinators. This group is responsible for receiving the charge card reports in a timely fashion. Finally, new reporting and monitoring has been established so we can effectively cancel inactive charge cards.

Finally, on recommendation number 12, which dealt with business expenses and employee recognition, we've undertaken the following:

We've reinforced our policies in this area with employees through further communications regarding our expectations around the proper support required for business expenses. We created a compliance group to monitor our progress and ensure compliance with policy on an ongoing basis. We've established clear guidelines on corporate expectations for various expenditures. We've revised our policy on business expenses so that, as

Ms. Burak said, the expense reports of administrative assistants are approved by their boss's boss. Finally, we've subjected the expense reports of administrative assistants to senior executives to the same rigorous review and audit process as the senior executives' reports themselves.

Once again, I'd like to thank the Auditor General and his staff for their report and its important findings. Hydro One takes these recommendations very seriously and has strengthened its policies and procedures to ensure that compliance and accountability are firmly in place at Hydro One.

I am proud of the company's dedicated response to these recommendations. I am also proud of the great achievements of our company over the last several years. As the stewards of what is a great public asset with over 100 years of history, we will continue to build, operate and maintain the system with dedication and focus.

We are counting on the continued support of our employees and the bargaining units to help the company meet its objectives. In this regard, I'm pleased to note that the Society of Energy Professionals and Hydro One management have formed a joint problem-solving committee with the assistance of the chair of the Ontario Labour Relations Board to work on improving our relationship. I am optimistic that we will make important steps forward in renewing that relationship.

We also understand that our customers and indeed the general public expect that Hydro One be managed in a responsible manner, respecting the public trust placed in us to ensure safe and reliable delivery of electricity at reasonable cost. We have worked diligently to achieve that goal. You have my commitment that we will continue to work hard to ensure that trust.

Finally, Mr. Chairman, I'd like to thank you again for the invitation to attend this committee. We appreciate the opportunity and look forward to answering any questions that you may have.

The Vice-Chair: Thank you all for your presentation. We will start the questioning. I just have one question: As we were reading the auditor's report and listening to the explanation, and now the presentation this morning, I personally get the feeling that the processes were all properly in place; it just wasn't administered properly. So if nothing needed changing other than that we needed to follow the rules, how do we explain now that we've put more processes in place, but what have we done to impose the culture of following the rules within the organization?

Ms. Formusa: With respect to the culture, it's going to be a number of steps that will follow from the procedures we've put in place. You're quite correct to say, and the Auditor General noted, that the policies were in place. In fact, procedures were in place but they weren't tight enough and, frankly, we weren't all abiding by them. So with communications to employees, I'm confident in reinforcing those messages and, with the compliance monitoring, which is a new feature, I'm confident that we will not be seeing the repetition of some of these findings.

The Vice-Chair: Thank you very much. With that, we'll start with the government—with the official opposition side with the questioning.

Mr. John Yakabuski (Renfrew–Nipissing–Pembroke): Never correct a good idea, Chair.

Thank you very much for joining us this morning. I'll begin by congratulating Ms. Formusa and Mr. Wallace for their recent appointments.

First, I want to ask Ms. Burak: You touched on the issue of why the board did not resign. That's not my question. But the terms of the board, or at least the vast majority of them, expired December 31. Am I correct and has the board or all or some of them been reappointed? I know there's a certain amount of grace period that is allowed, but perhaps you could enlighten us on that, please.

1000

Ms. Burak: The board is reappointed every year by the shareholder. The last appointment date was around the end of December, 2005, but according to the rules of, I guess, the securities commission and the Business Corporations Act, the shareholder has a period of up to 15 months to in fact confirm board appointments. So I guess March 31 would be the final date.

Mr. Yakabuski: So at this point we're still in that interim period, that grace period.

Ms. Burak: That's correct.

Mr. Yakabuski: No members of the board have been reappointed then at this time?

Ms. Burak: No.

Mr. Yakabuski: Thank you. I want to pick up a little bit on what the Chair spoke about. We recognize and appreciate that the board has accepted all of the recommendations of the auditor's report, which is a good start. But the old saying is, "The proof is in the pudding." We won't know how well these new procedures or policies have worked until we actually have another look at the situation sometime down the road when those can be evaluated. The issue, as the auditor has said, is not the fact that Hydro One was weak on policy. In fact, he was actually quite impressed with the policies that were in place and the fact that those policies, if followed, would not have led us into the situation that we're in here today. So it is a question that it doesn't matter how good the policy is; it's in the implementation that the true fruits will be borne.

In all fairness, regardless of the undertaking you're making today or since this report has been issued, we're not in a position to judge that implementation. We're really here to question what went on prior to that, because that is what prompted this hearing in itself—the fact that those procedures were not adhered to prior to the issuance of this report—and it would seem the only step that could be taken to strengthen those procedures and policies in light of what we learned about in the auditor's report.

I want to talk about the resignation of the chief executive officer first. I use that word "resignation" because that's in fact what did happen. According to our understanding of the contract, if the CEO was fired without cause, he was entitled to the compensation package that he received. You did talk about the fact that, jointly, you both agreed that the continuance of his tenure was not something that the corporation saw as an option. He saw it himself and chose to resign. There was no termination.

Given the fact that you also said "some of the expenses" and you used the words, "well, most of the expenses," even though they were dealt with in a wrongful way from an accountability point of view—and we'll get into a little more of that later—some of the expenses you described yourself as being illegitimate and the CEO was forced to repay those out of his own pocketbook. Given those circumstances and the fact that there was a $3-million severance at hand, I'm not sure—and I'm not an expert on these things. I don't know if the CEO could have been terminated with cause, but it certainly gave him reason to tender his resignation. Given the fact that his resignation was tendered, why would we then feel compelled that he was entitled to—why would you feel, I guess would be the question; I don't want to be necessarily included in that. Why would you feel compelled that he should be compensated to the tune of, as you said, approximately $3 million?

Ms. Burak: As I indicated in my remarks, the board did agree that his departure would be in the best interests of the company. In discussion with the CEO, he elected to resign so that his presence would no longer be a distraction for the organization. He was not fired for cause; there were not legal grounds to dismiss for cause; and, given that there were not legal grounds for dismissal for cause and that his departure would be in the best interests of the company, we as a board applied the severance provisions of his contract. The ability to do that for the company was quite broad, that we could, without notice and without cause, sever his employment relationship for any reason whatsoever. But if you do that, the severance kicks in.

Mr. Yakabuski: Thank you. By the way, maybe I'd better ask, what is the time on the rotation?

The Vice-Chair: Twenty minutes for each party.

Mr. Yakabuski: Twenty minutes. Thank you.

Mr. Richard Patten (Ottawa Centre): You've got two minutes.

Mr. Yakabuski: My God, it flies by, doesn't it?

You said he was not fired for cause—we know that—and that there was no justifiable reason to do so. I guess I would ask the question, because some people out there would be asking: If an employee working out of the station at Calabogie or wherever was found to have submitted illegitimate claims on their corporate credit card, would that be cause for termination?

Ms. Burak: It's hard to get into theoretical situations, but I do know, based on—

Mr. Yakabuski: But you specifically said that those were not—

Ms. Burak: I understand the gist of your question, and based on the legal advice that I have and the precedents that I've seen, I don't believe that would be an issue of cause. I'm trying to deal up front with a question that I know the general public and members face when they go back to the ridings. This was an extraordinary set of circumstances. I'm trying to be totally candid with you and say that the board and the CEO both agreed that his continued employment would be a distraction for the organization, that the best thing for the company would be for him to depart and, in light of all of the circumstances, applied his severance provisions.

Mr. Yakabuski: I have no question, Ms. Burak, that you're being completely candid with us, but I do want to ask that question again about the legitimacy of certain expenses. Because as people who represent the people of the province of Ontario in the Legislature, I think we have a responsibility as well, and they have an expectation of us. I think it's a fair question: If someone is guilty of submitting illegitimate expenses on a Hydro One credit card, is that or is it not justifiable reason for termination of employment?

Ms. Burak: In the advice that I've received, no, it is not. One also has to take into consideration the other accomplishments or the full range of work undertaken on behalf of the company. But again, in this situation, termination for cause was not what could be done.

1010

Mr. Yakabuski: Some people would describe it, when you put illegitimate charges on a credit card, as stealing. When I worked for Ontario Hydro many years ago, I was point-blankly told that one thing that was absolutely not tolerated in the corporation was stealing. Whether or not you're stealing a widget or you're submitting illegitimate expenses—which may or may not be found, in fairness—some people would use the same word to describe those. Does Hydro One have a policy that if an employee is caught stealing, that is cause for termination?

Ms. Burak: Let me state that it doesn't matter at what level you are in the organization; everybody should follow the rules. I would defer to Ms. Formusa with regard to matters handled below the executive level, if there's anything she wants to add.

Ms. Formusa: It's clear that corporate assets have to be treated responsibly, and theft is not tolerated. But—my former role as a lawyer—everything is circumstantial. We've terminated employees for theft in the past. They've been reinstated by either arbitrators or the courts; it really does depend on the circumstances.

I think the primary focus is that corporate assets should be treated responsibly. Theft does not fit with the proper treatment of corporate assets.

Mr. Yakabuski: Thank you very much. We may come back to this, but I want to get down to the use of the corporate credit cards. That's one of the things that seemed to trigger a great deal of the concern on the part of the Auditor General. Purchases were about $163 million last year on corporate credit cards, and again, it comes down to the issue of accountability. If I was the bearer of a Hydro One corporate credit card, would it be issued in my name or in joint names? Would the words

"Hydro One" be on the credit card or would it be in my name, John Yakabuski?

Ms. Beth Summers: There would be a logo on the card with Hydro One on it. However, your name would be on the card.

Mr. Yakabuski: So it doesn't say "Visa" on it or anything? It's just a Hydro One card and it's acceptable—

Ms. Summers: No, it's a MasterCard.

Mr. Yakabuski: So it's a MasterCard that has the Hydro One logo on it, and my name would be on it. So the monthly statements then would be sent directly to the office of Hydro One?

Ms. Summers: They would be sent to the office of Hydro One in the name of the person who holds the card.

Mr. Yakabuski: Right. So what was the expectation, then, on every line item that there must be—the statement, because it's coming from the credit agency, yet the individual would be collecting those invoices, correct? The individual themselves would be the one to receive the invoice when they make the purchases on that credit card, correct?

Ms. Summers: Yes. Anybody making a purchase on a corporate card would have that corporate card, would make the purchase, and policy requires that that individual would have the receipt and would document the business purpose behind that, which would be attached to the statement. Then the next part of the approval process would be that their superior would approve those expenditures.

Mr. Yakabuski: So it would have to be attached to the statement? So the statement would have to come to the individual first, then?

Ms. Summers: Yeah. You would receive the statement in the mail—

Mr. Yakabuski: The individual would receive the statement?

Ms. Summers: Yes. As an example, I do have a corporate card. For my corporate card, on a monthly basis, I would receive in the mail in my office my corporate card statement. From that corporate card statement, every time I would make a business expense in accordance with my role at Hydro One—so if I incurred any business expenditures I would have that receipt. When I got that statement in the mail, I would take the receipt, identify—document—what that was and attach it, and then I would have a cover sheet also.

Mr. Yakabuski: And what would be the policy if the employee did not have a copy of the receipt? They're out in the field; they're picking up supplies. They may be at Canadian Tire, for example, and pick up a number of hardware-related items or implements or whatever that may be required to do some work, and in the hustle and bustle of the day, getting the job done, that receipt goes missing. What would be the expectation from the supervisor in a case like that?

Ms. Summers: The expectation would be—first, you would attempt to get a copy of that invoice. There may be instances where, if it was, say, in accordance with doing some sort of work you were staying at a motel or a hotel—you would attempt to get a fax copy or a duplicate invoice receipt, to attach that. If that was not possible, the expectation would be that it would be flagged with the supervisor, and the supervisor would initial and identify the fact that they were aware that there wasn't a receipt in place. That is how the procedure works.

Mr. Yakabuski: So they're aware there's a receipt not in place. I'm just going to throw up a hypothetical situation. You go in and you buy a number of small items. They go through a cash register. There's no written receipt. I'm not sure of the capability of the business to necessarily duplicate that receipt 30, 60 or 90 days down the road. If you simply make a note, well, you could have a lot of notes on your file. You may not have many receipts, but you could have a lot of notes. At some point, is somebody taken to task and told, "Look, this is an unacceptable pattern"? There's a pattern of purchases that are not accompanied by a receipt. A note by a supervisor—where does it go beyond that?

Ms. Summers: The expectation would be that that would happen in a rare circumstance, that that wouldn't be something common. If it was happening on a common basis, the expectation would be that the supervisor would identify that and it would be factored in going forward whether or not the individual had the ability to use a card going forward.

Mr. Yakabuski: How much time?

The Vice-Chair: One minute. It will come around again.

Mr. Yakabuski: You were right the first time, Richard: It does fly by.

The issue of cash advances: Under what circumstances would an employee of Hydro One require cash advances? I mean, today, hell, there are more places you go where they don't accept cash than places that accept cash only. I'm wondering under what circumstances and what reasoning—what accounting safeguards are in place? There are, unfortunately, opportunities for misuse. That goes with anything when there are a lot of transactions taking place. What is the justification, the reasoning or the science in the thinking behind allowing cash advances?

Ms. Summers: There are some instances where cash would be used and would be required. The cash advance feature is often used for reimbursement. I'll take the example, again, back to my corporate card usage. There would be instances when I would have to travel for purposes of work and I would incur mileage. As a result of that mileage, there is a corporate established rate, and I would be reimbursed for the mileage. In addition, one instance where typically you would end up using cash would be for a short cab ride within a downtown area or something in the range of $10. On an ongoing basis, there would be a cash-use report for those cash expenses. The cash-use report would identify and tally up those amounts, and there would be an amount owing from Hydro One to the individual to reimburse for those business expenditures, and that would be what the cash advance feature would be used for. An example again would be, at the end of the month, say there was $50 which was a required reimbursement because those expenses had been incurred. Then the cash advance feature would be used to withdraw the $50.

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Mr. Yakabuski: I understand that—

The Vice-Chair: Thank you very much, Mr. Yakabuski. Mr. Hampton.

Mr. Howard Hampton (Kenora–Rainy River): I would like to address my questions to Ms. Burak. I think you'd admit that the issue of pay, bonuses, perks, expense accounts for the executives at Hydro One is certainly not a new issue or a new revelation.

Ms. Burak: Help me with the context of your question, Mr. Hampton.

Mr. Hampton: Let me take you back to 2002 and Eleanor Clitheroe, where the issue of pay, perks, bonuses, pensions, expensive cars, I think $58,000 in limousine billings, mortgage subsidies—all those issues were raised then. Is that not correct?

Ms. Burak: A number of issues were raised in 2002, yes.

Mr. Hampton: In early 2006, the then energy minister announced to the people of Ontario that she had called for a review of the generous compensation packages awarded to public service executives in the province's power sector. She referred to pay, bonuses and other perks. She said that she was going to require the boards of the different hydro entities to meet with her to examine this situation. So this was again an issue a year ago.

I guess the question I want to ask, then, is this: If this issue was raised in 2002, if this issue was raised a year ago—and I'm speaking specifically of Mr. Parkinson here—and the boards of the different hydro entities, Hydro One being one of them, were told, "Sit down with the Ministry of Energy officials, look at what you're doing, examine the situation," why do we still have this kind of scenario happening?

Ms. Burak: On the issue of executive compensation, you are correct that the former Minister of Energy raised the issue with all of the companies and agencies, and I believe each one of us met with her and took her through the background of how executive compensation was arrived at. In the case of Hydro One, we were able to outline changes that we made in 2002; for example, eliminating the long-term incentive program; lowering the quantum on short-term incentive pay. I can only tell you that in terms of direction and something that we are paying absolutely full attention to is the fact that the government has now established an external panel that will presumably get to the heart of the matter. As I indicated in my remarks, the panel is asked specifically to look at public sector comparators as it reviews compensation issues in all of the companies and agencies.

Mr. Hampton: I'm more interested, though, in going back to the fact that this is hardly new stuff. When I read the auditor's report, I thought to myself, "Not much new here. This has been raised before, or elements of it have been raised before." Elements of it were raised with respect to Ms. Clitheroe. Elements of it were raised earlier with respect to Mr. Parkinson, the use of a corporate helicopter, whether it was justified, whether it was for corporate purposes or business purposes; the pay package, what the elements of the pay package were, what the perks were, what the expense accounts were. I would have thought that since the issue was raised three times, a reasonable person would have expected that something would have been done then to ensure that expenses were appropriate, to ensure that things were being properly accounted for, to ensure that in fact your own policies were being followed. But it would appear that wasn't done. Why?

Ms. Burak: I'll speak to the three points I think you're making. First, with regard to compensation, I will repeat that in 2002, we did take steps to make changes to certain elements of executive compensation; for example, the elimination of the long-term incentive program. I also indicated that we've improved the comparators. But basically, for executive compensation at our company, and I believe the other energy entities as well, we use private sector comparators for compensation. That has been disclosed on an annual basis and for all of the other agencies and companies in the April 1 list.

With regard to expenses, I think we are acknowledging today that our policies were very good. We had some issues around compliance that we're dealing with, and we are making improvements to ensure compliance and to discover any problems relating to expenses early on with the changes that we're making.

In terms of accountability, Mr. Hampton, I can again assure you that I take full accountability as chair and that we are doing everything we can to make sure that, going forward, policies are adhered to and that there won't be a repeat of the auditor's report when he comes back next time.

Mr. Hampton: I guess I'll repeat my question: Why did this take so long? These issues are hardly new. The auditor reported on some new details, but these issues are hardly new. They were raised in 2002. They were raised again with respect to Mr. Parkinson's use of the corporate helicopter, whether it was appropriate for him to use it to fly back and forth to his cottage. They were raised a year ago when the then Minister of Energy said:

"A $1.5-million salary paid last year to the man watching over Ontario's electricity transmission grid will be examined....

"Cansfield said she will sit down with the boards of Hydro One and also other electricity firms ... to see how executive salaries were determined....

"'Some fair explanation is reasonable,' said Cansfield."

I would have thought, with all those yellow lights, if not red lights, going off, that some thoughtful analysis would have been done, that there would have been some care taken to ensure that not only were good policies in place, but those policies were in fact being followed. But here we are now in 2007, and I think it would appear to a reasonable person that despite the announcements to the press and despite the statement that things were going to happen, somehow this continued.

Ms. Burak: You raise an issue that was not in the Auditor General's report, and that was the use of helicopters. Let me respond to it.

Mr. Hampton: That was one of the early warning signs. That was one of the early amber lights.

Ms. Burak: I'll respond to it; I'm happy to respond to your question, Mr. Hampton.

Again, I will state, as I've stated with everything else, that the company's assets must be treated appropriately and should only be used for business purposes. I have no proof that the former CEO used the helicopter to go back and forth to his cottage. An issue was raised in our public agencies committee in September whereby the president went to a work crew on a weekend and made the judgment call to take his son in the helicopter. All of the assets of the company should be used appropriately, and I'm not going to defend or explain his judgment call.

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On expenses, we were not sitting idle in light of issues that became a matter of public record in 2002. One of the reasons that my expenses, the expenses of the CEO, the general counsel and so on are reviewed by external auditors is that what we had found prior to that were some inappropriate practices. What we've now dealt with is the issue of the CEO or the assistant to the CEO putting certain expenses on her card that should have either been done through other methods or the CEO's card.

I'll give you one example. Apparently, there was a meeting that was attended by 30 staff members, and normally in a government situation, if I were still a deputy minister and I had a dinner meeting with 30 deputy ministers, I wouldn't put that on my card. There would be some sort of an invoice. But in that instance, as an example, the cost went on the assistant's card.

These things should not happen, and we know that we have taken steps now to ensure that that will not happen going forward. I can only tell you that all of our efforts are focused on this. We take this very seriously. We're just as disturbed as the shareholder about the impact that this has had on the reputation of the company, and we want to do everything correctly going forward.

Mr. Hampton: I want to be sure I heard you, that the way these expenses were accounted for was inappropriate, that these were inappropriate practices. I think that's what you said.

Ms. Burak: I said that there were some expenses that were paid where the method of payment, putting it on the assistant's card, was not the way it should have happened.

Mr. Hampton: It was an inappropriate practice.

Ms. Burak: An inappropriate practice, yes.

Mr. Hampton: Okay. So I think what I've heard you say is that despite the warning bells of 2002, despite the warning bells of 2005, despite the Minister of Energy being forced to call the chairs of Hydro One and the other hydro utilities together to look at this issue of executive pay, executive salaries, bonuses, perks, that inappropriate practices continued in this case.

Ms. Burak: In this one instance, and in the other instances that the Auditor General found in our company—and I know we were not the only entity reviewed—yes, there were compliance lapses.

Mr. Hampton: We're going to get to the other ones later on.

Ms. Burak: There were compliance lapses, and we are fixing them going forward.

Mr. Hampton: I want to ask you this. If I'm a Hydro One employee, and we're all agreed that Hydro One has, as the auditor says—I think it's on page 161: "Hydro One generally had adequate policies ... to help ensure that goods and services were acquired with due regard for value for money." So I'm a Hydro One worker. I've got a list of rules and procedures. I'm told I must follow them. And then I listen to the news the next morning and I find that the head of the organization, the person who is supposed to provide leadership, direction, guidance, is not following the rules; in fact, has put $40,000 of expenses that should have been accounted for by him on an assistant's credit card. Do you think that person, the chief executive officer, can, from a perspective of leadership, direction, continue as the chief executive officer in that situation?

Ms. Burak: All of the rules and procedures and policies in the company, of course, have to be followed by everyone, whether you're on the line or you are the CEO.

Mr. Hampton: I've heard all of you talk about how you'd want to be compared to a private sector corporation because that's how you were set up. It wasn't long ago that the head of Boeing told all of his people in that corporation that they had to conduct themselves ethically, and then it was found, I guess by some sleuth in the media, that he was having an affair with another person in the corporation, and he was forced to resign. He could not continue in a position of leadership, he could not continue to provide guidance and direction to other employees in the organization when he himself was not conducting himself that way.

So you're a private sector company, or at least that's what I've heard you say here today. Mr. Parkinson was not conducting himself according to the appropriate accounting practices of the corporation. He was not conducting himself and his own personal expenses according to the rules and procedures that were set down that were to be followed by all people in the organization. In your judgment as chair of the board, could Mr. Parkinson continue to lead the organization, given that scenario?

Ms. Burak: First of all, Mr. Hampton, if I may just be more precise about my comment on the private sector, what I said was, we know that we are wholly owned by the province, and I made a reference to the private sector when I said that our compensation comparator for executive compensation is essentially the private sector. Although in fact it is a mix of public and private sector, it's predominantly private sector.

To your second question, as I indicated in my remarks, the board agreed that it would be in the best interests of the company if the former CEO were to leave the company, and that is what happened.

Mr. Hampton: So you agree he couldn't continue as the chief executive officer.

Ms. Burak: The board, in discussion with the CEO—both agreed that his continuing as president and CEO was not tenable.

Mr. Hampton: So if his continuing as the chief executive officer was not tenable, just would not pass any reasonable person's test of "this is appropriate," why did this person get a $3-million golden handshake?

Ms. Burak: I think I will repeat again what I said at the beginning, and you may have a follow-on question. We agreed—the board agreed—that his departure would be in the best interests of the company and elected to honour the severance provisions of his contract, which allow the company, without notice and without cause, to end his employment, but in that case a severance would be paid. The CEO was not fired for cause. There were not legal grounds for cause.

Mr. Hampton: So the board elected to pay him $3 million. It's your view that you were under no obligation to pay him $3 million. You elected to pay him $3 million. Is that correct?

Ms. Burak: Those are the words that I used. Let me explain what I meant by that. Once it had taken the decision that his departure would be in the best interests of the company, the board had the right, under his employment contract, without notice and without cause, to terminate his employment for any reason whatsoever, in which case the severance provisions would kick in.

Mr. Hampton: But I think I already asked you—according to the test of the reasonable person, I think you said that Mr. Parkinson could not have continued as the chief executive officer of Hydro One, that it would have been completely untenable to any reasonable person in Ontario who said, "Wait a minute. This guy, who's supposed to provide the moral leadership, the direction, the ethical conduct for the corporation, who's supposed to set the rules and enforce them, himself has been found to be not following those rules." The test of the reasonable person would mean he can't continue. I think I heard you say that you agree with that, that it was untenable for him to continue. Now, if it's untenable for him to continue, if he cannot provide moral and ethical and business leadership to the corporation, why on earth would he get a $3-million pay package to go out the door?

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Ms. Burak: Mr. Hampton, I can only repeat what I've said. The board agreed that his departure would be in the best interests of the company. The board, under the provisions of his contract, had the right to terminate his employment without notice and without cause for any reason whatsoever. He was not fired for cause. There were not grounds for cause.

Mr. Hampton: I have one last question.

The Vice-Chair: Howard, your time is up.

Mr. Hampton: Okay, we'll come back.

The Vice-Chair: Thank you very much, Mr. Hampton. Mr. Patten.

Mr. Patten: Thank you, Mr. Chair. Maybe I can kick off for the government side. Some of my colleagues also have some questions. Welcome today, and congratulations to those of you who have recently taken on your challenging responsibilities.

I noted that you mentioned that this indeed was the very first time that we had a value-for-money audit by the Provincial Auditor. I listened carefully, Ms. Burak, to some of the issues you identified that you were responding to, but I am curious on this matter. While the auditor did say he had no disagreements with the policies of the company and that it was the area of compliance, the area of procedures that he identified as needing some correction—I will refer to part of his identification in his report, page 162, chapter 3. It's pretty straightforward. He says, "The corporation's internal audit department had relatively recently conducted a number of audits on procurement, which we found very helpful in determining the scope and extent of our audit work in selected areas."

Now, I'll come back to that in a moment, but I want to ask you some questions about internal audit. On page 164 he talks about how "the supply chain management group within Hydro One is responsible for implementing, monitoring, and enforcing compliance with procurement policies and procedures," which includes such functions as "ordering, receiving, and inspecting goods, as well as monitoring spending, verifying compliance with purchasing policy, and processing payments."

How many internal auditors do you have working in the internal audit department?

Ms. Summers: I believe it's 17.

Mr. Patten: It's 17. The Auditor General had identified that there had just previously been an audit internally, so my question is: Why would they not have picked up some of the procedures that were identified by the Auditor General in some way or somehow with 17 internal auditors?

Ms. Summers: The internal audit department had identified some of the issues similar to those that were identified by the Auditor General. Prior to the Auditor General's report being issued, as an organization we had begun to implement some of the changes—specifically, I would flag the process around our approval authorities. We had begun implementing a new clarified authority register, which throughout the organization would be the guideline for who has the authority to approve for certain expenditures and how it links back to procurement and purchasing services. That would have been reviewed by the audit finance committee and recommended to the board for approval and approved by the board in late 2005. In 2006 in the organization, we were going through the process of rolling that out. As part of the rollout, we had to embed that in some of our information technology systems. That took some time. As part of that implementation, in addition we automated some of the controls which previously would have been manual and, as a result, strengthened the control environment. That was implemented throughout 2006.

Because we are a large, decentralized organization, some of these changes, as you roll out the training, take a period of time working through so you don't disrupt the workflow and the work continues as you're ensuring that people are aware of those changes and what that compliance is. So we were addressing some of those findings prior to the Auditor General's report, and yes, there were still instances of non-compliance which had been identified by internal audit previously, which was unacceptable. We certainly appreciate the internal audit findings as well as the Auditor General findings. We've taken that and reconfirmed, communicated again and reinforced with employees, and specifically took some additional steps to increase the resources in the areas around compliance. So we can use that as a means for additional training; ensuring that people are following it; monitoring it on an ongoing basis; tracking the progress; and, where there are still issues, we'll continue going forward to ensure that we keep getting at it.

Mr. Patten: So, in the case where actions have been taken, for example, of expenses being reviewed by the supervisor of the supervisor, to ensure that someone else isn't putting an expense as a charge for someone else's account—having said that, I can understand sometimes where that might happen, but to be explicit as to who's accountable for what expenses is really the principle that's important here. With the recommendation that was made by the board, are you saying that that had already been identified as one of the weaknesses of the system, or did it take the Auditor General's review to flag the issue?

Ms. Summers: The specific finding associated with the business expenditures—that had not, to my knowledge, previously been specifically identified by internal audit. As a result, it was after the Auditor General's findings that we altered that particular policy. We built that into the policy, the approval of the boss's boss for the administrative assistants throughout the organization, and, in addition, included it as part of the overall annual process for the executive administrative assistants' expenses, consistent with what the executive expenses would follow.

Mr. Patten: Would it be fair to say, being part of heading up internal audit for the company, that they must have felt a wee bit embarrassed, having not picked up a particular procedure that would be crucial to the integrity of the company? Following the work of the Auditor General, discussions obviously would have taken place with your internal audit department around what they in fact audit and to what extent and on what basis—it sounds like you in fact have moved ahead and you are dealing with this. An external audit review provides a different perspective sometimes. It can be helpful. You say you're going to deal with all the recommendations of the Auditor General. My friend Mr. Yakabuski says, "The proof is in the pudding." We'll see, in a year or two, or whatever the review period is, the application of the panel review's recommendations, which I think occur at the end of March, and the response to that.

I'm satisfied that you're beginning to deal with this. Hopefully, the internal audit group is feeling the pressure to learn from this experience and strengthen their own capacities to provide the audit procedures in the company.

I'll pass it along to one of my colleagues. Mr. Flynn, you have some questions?

Mr. Kevin Daniel Flynn (Oakville): How much time is left, Mr. Chair?

The Vice-Chair: You have till 11:04.

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Mr. Flynn: Okay. Thank you very much for your presentations this morning. Following up on my colleague's questions, I understand that the auditor came up with 13 major findings, and there's agreement by the organization that those findings were valid and should be acted upon. I think I've heard that right throughout. Could you provide us with some evidence this morning of things you have done to date, any sort of measures you may have taken to date, that would give us a good feeling that you are in fact acting upon some of the recommendations that have come forward from the Auditor General?

Ms. Summers: We have, as I previously discussed, set up specifically compliance organizations. We reinstituted some sample compliance audits around the corporate credit card usage. There are additional resources that have now been allocated to doing that on an ongoing basis. In addition to that, from a compliance standpoint, we have identified and added some resources associated with compliance work around the procurement of goods and services, looking at the overall policies and procedures. I will also add that the corporate credit card is just a method of payment. All purchases made under the corporate credit card are subject to the same policies and procedures that the overall procurement is.

In addition, we have sent out communications to all staff—they have come from myself—to specifically identify the keys areas of the policies where the problems were identified. That has been communicated and reinforced. We've been very clear on our expectations and sent communications out around the expectations, that we expect people to adhere to policy. Everybody, regardless of their position, is expected to follow policy, and we are going to be following that up.

In addition, we have looked at the policies to ensure that they reflect what we need to do as a business. We tightened up the policy around the business expenses, as we've discussed previously, around the approval of the administrative assistants by the boss's boss, and following the same processes for the executives on an annual basis. In addition, we looked at the overall procurement policies, and in areas where we identified problems, we also made adjustments and revisions there.

Mr. Flynn: Placing the Auditor General's report in some sort of context that I think would be of interest to the people of Ontario, in the organization itself, obviously some shortcomings were identified that you've just outlined and that you're prepared to act upon and you are acting upon. The overall health of the organization compared to where it may have been at some points in the past: What have you done specifically to improve or increase your financial performance overall, so we can place some context on the recommendations that are coming from the Auditor General?

Ms. Summers: As an organization, we have certainly focused clearly on making it a better company through time, not just around control environment but certainly around performance. As an organization, since 2003, our net income has increased from $396 million to $483 million in 2005. In addition, certainly a core of our business planning process and overall activity is making sure that productivity is key, and we have focused very hard on where we could identify productivity areas to reduce costs going forward. We had identified, from 2001 to 2006—we've worked hard as an organization, and we have identified and actually achieved $400 million worth of savings. Certainly we've had stable and strong credit ratings, which have allowed us access to the debt capital markets, and we certainly enjoy the ability to raise 30-year debt, and we've even been able to raise, in certain circumstances, some 40-year debt, which gives us the ability to match the debt that we're issuing to our long-lived assets.

Mr. Flynn: What would these productivity improvements mean to the people of Ontario? How would they see them manifest themselves?

Ms. Summers: It would reduce the overall costs of our organization. So for the purposes of establishing our rates, the costs to do the work, to run the system and to have a safe, reliable system would be less.

Mr. Flynn: People have talked about the overall health of our transmission systems in the past. Concerns have been expressed. Looking to the future, there was a hope that that transmission system would be expanded, that it would be improved. Can you give us any indication that the performance of the company to date isn't allowing that to happen? That seems to be a major concern of people in Ontario.

Ms. Formusa: And we agree with that. We are very cognizant of the importance of that system to the province's health. But as we all know, it is an aging system. Consequently, we've directed a lot of our efforts over the past five years to rejuvenating, refurbishing and constructing new transmission, up to about $2 billion in investment to date. Approximately another $2 billion over the next two years is planned for the system. We've constructed the major transformer station at Parkway up in Markham, which was key to the closure of the Lakeview fossil plant down on the lakeshore. We've almost completed the Niagara reinforcement transmission line project, up from Niagara Falls, to allow us to import more from the US. We've improved the interconnection capability at Michigan, with our neighbours there. We've begun construction of the new transmission line connecting us with the province of Quebec, which is a significant project in that it now enables the two provinces to actually exchange electricity. We're not synchronous. This line will enable the provinces to be synchronous and we can import from or export to them, which, following the ice storm back in 1999, I believe it was, we found to be a bit of a problem in that we weren't able to. They in particular found it difficult.

So we've got quite a number of major projects dealing with what we consider to be an important asset to the province, and we look forward to several others.

I'd just mention quickly that the Ontario Energy Board has approved a couple of projects recently, one up in the Stayner-Barrie area to improve the reliability there and another one in north Mississauga, west Brampton: Hurontario. We have a few projects in the works.

Mr. Flynn: You mentioned the ice storm. I think we all learnt some lessons from the ice storm. And 2006 wasn't the best year for weather either; we had some pretty major storms that went through the province of Ontario, causing some disruption for some people. Did you get any learnings from the ice storm or from other procedures that allowed you to respond in 2006 to some of the weather we had? How would you typify your response? Was it good, poor, about average?

Ms. Formusa: Mother Nature—and I think we're going to find out today—is always unpredictable and something we have to deal with. It doesn't matter the season. We would have thought this past summer would be relatively quiet, that we might have to deal with the heat, but Mother Nature dealt us three storms in a row. Based on the learnings from the ice storm, although it was a different type of weather phenomenon, we improved our ability to respond to emergency situations. We set up an organization within the company to do that. That organization and those procedures are deployed each and every time there is an emergency—sorry; an event. We categorize the level of emergency depending on the devastation that's occurred and the number of customers who are out of power and we deploy the necessary resources in each and every case.

I would say that definitely this past summer what we learned in the ice storm and, unfortunately, what we've had to put into practice almost every year since then has stood us in excellent stead. I can only once again say that our employees pulled us through, as did our neighbouring local utilities, who also came out and helped us. We should not forget them. Finally, our efforts were recognized by none other than the Edison Electric Institute recently. We were the first Canadian entity to receive a storm restoration award, or any award, from that institution. I think that speaks volumes for how our work is viewed by our peers throughout North America.

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Mr. Flynn: This would be the first opportunity that members such as myself and others on the committee would have to gain the insight into the organization that's been provided by the Auditor General's report. Obviously, the exercise has brought to the forefront some issues that needed to be dealt with. From a management perspective, was this something you found to be of some value despite the findings?

Ms. Formusa: Yes, absolutely.

Laughter.

Ms. Formusa: I would have said it even if the Auditor General weren't here.

Mr. Jim McCarter: I can leave the room.

Ms. Formusa: There's no question that we had our moments. I think it's fair to say that whenever one is being audited, there's always an exchange of views on what is a good procedure or a good policy, and we certainly had a healthy exchange of views with the Auditor General and his staff. There's no question that we learned from that experience. We've shared some of those learnings today. We do have a very capable internal audit group, but it's clear that the particular focus that the Auditor General brought on the procurement of goods and services was something that they were able to deal with in far more depth than we previously had done ourselves. No question: We learned a lot, I think they learned a lot, and we've shared those learnings with everyone here today.

The Vice-Chair: Thank you very much, Mr. Flynn. Ms. MacLeod?

Ms. Lisa MacLeod (Nepean–Carleton): Thank you, Chair. I will be ceding part of my time to our energy critic for the PC Party, John Yakabuski.

In the meantime, I have a couple of questions with respect to blanket purchase orders and the lack of value for money when it comes to blanket purchase orders. In reviewing the report, you can draw the conclusion that in far too many instances, the BPO was not established through a competitive procurement process. There is no time frame for the BPO, and in many cases the price tag for the BPO was the same as a non-competitive rate.

In 2006, Hydro One had approximately 1,000 BPOs for materials, contract staff and consulting services. The auditor identified several areas of concern. Some of the BPOs had been in effect for more than 10 years. In one instance, in 1996 a BPO had been established at $120,000; it was revised 39 times, and by 2006 that BPO was worth $6.7 million. That is over a 50% increase. Approximately one quarter had no stated maximum, and another 700 had been altered in terms of the original maximum values or effective terms. In one case, one of the BPOs was worth up to $250 million. With that in mind, I'm wondering if you could update us with the current management guidelines for BPOs and, in doing so, if you would be able to explain to us how one BPO could be worth $120,000 in 1996 and grow to $6.7 million in 2006.

Ms. Summers: Hydro One policies require that the procurement of services and products occur in an open, transparent and fair basis, with due regard for value for money. Clearly, the findings that the Auditor General identified were unacceptable. What we've done is address those through clearly establishing a plan, having fixed end dates around the blanket purchase orders, going to market on a rational basis through time. Looking at those, identifying the highest-risk, which were in negotiations, we have re-established blanket purchase orders for many of those that would have been identified as not having fixed end dates. We have a process in place where, on an annual basis, blanket purchase orders would be tendered, in accordance with the procurement procedures, based on size. That process is now in place and functioning. In addition, we've set up a compliance department so we would be aware of these.

The blanket purchase orders was one of the areas where, prior to the Auditor General report being finalized and issued, we had begun addressing that because it was clearly unacceptable and as an organization we wanted it fixed.

Ms. MacLeod: Thanks. Just to correct Hansard, I meant a 50 times, not 50%, increase from $120,000 to $6.7 million. I'm just wondering if you could shed some light on which company it was that you had a BPO with over this 10-year period that was revised 39 times, 50 times the expansion. It's right here in the auditor's report on page 162.

Ms. Summers: I believe that particular blanket purchase order would have been with Lockweld, and that would have been for some steel parts. For that one in particular, my understanding is that the purchases that were made—we had blanket purchase orders with more than one organization, and when purchases were made on that blanket, there were quotes received. Unfortunately, the documentation was not sufficient to go through and identify on an ongoing basis. A blanket purchase order isn't the place to be doing the quotes and putting it in one place versus the other, so we have stopped that practice. That particular BPO has been remarketed and, going forward, it would be renewed on an annual basis.

Ms. MacLeod: How much of a bill do you think the taxpayers footed in terms of a percentage increase because of that BPO and it wasn't being competitive and it wasn't tendered out to the public? Have you followed through on that?

Ms. Summers: Because of the quotes associated with those particular steel parts and a specialized function they had, when I had discussions with procurement, there wasn't a concern that we weren't receiving competitive prices. That being said, it shouldn't have happened. We did address it and we did deal with it going to market going forward.

Ms. MacLeod: I'm very unclear as to how you could be spending $120,000 10 years ago and it was $6.7 million. What caused this massive jump from one price to another?

Ms. Summers: The increase to the $6.7 million would be through time, so over the 10 years it built to $6.7 million. It wasn't that there would be an amount of $120,000 purchased in one year and $6.7 million was purchased in another year. The $6.7 million would be the through-time amount on that particular blanket purchase order.

Ms. MacLeod: Okay. Just to conclude, are there any other changes made to the BPO process that this committee should be aware of with respect to competitiveness, pricing and any guidelines for amending future BPOs?

Ms. Summers: The one comment I will add is that the blanket purchase orders—we are being clear we're complying with policy, and the policy itself was identified as "with due regard for value for money." Going forward, we will be compliant.

Ms. MacLeod: Okay. Thank you very much, Chair.

The Vice-Chair: Mr. Yakabuski?

Mr. Yakabuski: We're going to go a little easier here, because I recognize you need a break after that rigorous grilling you received from the parliamentary assistant to the Minister of Energy.

Going back to the cash advances, I'm not sure if we were on the same page on that one. Maybe I have an incorrect view of it or an incorrect understanding of it, but you might be able to help me with that. I understand if a staff member or a manager or whatever of Hydro One has previous plans to go to some conference or something and they're given a cash advance because there are likely to be some out-of-pocket expenses that they know they're going to incur, so they've been given a cash advance—it seemed to me that's what you were explaining—and then there'd have to be an accounting of how that cash was spent. But my understanding is also that people who have these corporate credit cards can actually get a cash advance on the credit card. This is not something that—"I know I'm going to be at an energy conference in Tulsa, Oklahoma" or whatever, "so I need a cash advance. I need some pocket money." There also appears to me to be the ability for that person to go to a bank or bank machine and get a cash advance and then deal with the issue of accountability afterwards. I would have to ask, and I think the people of Ontario would like to know: What is the basis for allowing a cash advance on a credit card? Is that in fact an option available to them?

Ms. Summers: The corporate credit cards do, many of them, have a feature of cash advances. That was in fact one of the findings the Auditor General's report had, and the comment was that we should reassess cash advances, the ability to have cash advances on all of the cards, and ensure that only on those cards where we did an effective risk-versus-benefit-to-the-company analysis would we allow that on those cards. That is a process which we are doing and establishing.

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The cash advance is the process we use, with the card, to reimburse people for their cash expenses. It all needs to be accounted for. It's all to be done on a cash-use report. In addition to that, the cash advance feature would also be used in a circumstance where you might be travelling and you required the cash up front. Typically, that isn't the way it would be used; it would be used as a reimbursement and then approved by the supervisor as part of the overall approval process around that corporate card.

Mr. Yakabuski: That's not a cash advance by credit card. The reimbursement is not a cash advance by credit card.

Ms. Summers: The cash advance feature would be used for the reimbursement.

Mr. Yakabuski: So they would actually use the cash advance feature of their credit card for reimbursement.

Ms. Summers: Bringing it back to the example I used—

Mr. Yakabuski: I really want to ask some questions on this. So they would use that feature. I find that, actually, incredible. It's not like you don't write cheques. I've got people in my riding who get a cheque for 30 cents from Hydro One. So it's not like somebody in the office doesn't write a cheque for 30 cents or whatever. I just don't understand how—okay, you've got your credit card; you reimburse your expenses by taking a cash advance? Don't you think that should be done by the process of accounting for expenses and issuing a cheque for the approved amount? A guy has a credit card: "Oh, well, there are your expenses." He gets his money back by putting it on the credit card? I don't know; that doesn't make sense to me.

Ms. Summers: The process is that all of the cash expenses have to be accounted for and on a cash-use report. The ability to reimburse that, in certain instances, can be through a corporate card as opposed to having a cheque written by the organization. When we implemented the corporate credit card process initially, this was one of the features that we looked at. Because of the decentralized and vast province that we cover, that was viewed as one of the ways of minimizing costs overall for ensuring that we're dealing with expenditures on a timely and efficient basis. So it was one of those functions we looked at and, as an organization, determined that in certain circumstances made sense because it was less expensive to process those; having an organization which would cut the cheque and write the cheque versus having the controls in place where that particular card and cash-use report would be submitted, reviewed by a supervisor, and the supervisor would know what was happening and what wasn't on an ongoing and timely basis.

Mr. Yakabuski: I appreciate your information on that. I'm not sure that I would agree with that, and maybe that's something the auditor should take another look at. Maybe the people would like to have a different way.

Anyway, let's go back to Mr. Parkinson. Ms. Burak, you said that he was not terminated with cause, there was no cause to terminate him. Then you further said that he resigned and that because he wasn't terminated with cause, he was entitled to his severance; the severance provisions kicked in. But he did resign. Now, his contract, or at least his statement of executive compensation, reads that—and you're quite aware of the exact verbiage so I won't read it all, but I'll read some of it:

"If Mr. Parkinson's employment is terminated by Hydro One without cause, Mr. Parkinson is entitled to receive an amount equal to his base salary and executive allowance as at the date of termination either in a lump sum payment or in equal monthly instalments for a period of 24 months, and to receive, either in a lump sum payment or over the same 24-month period, full benefits, a bonus of not less than the greater of the average of three previous bonus payments or 25% of his base salary, the continuation of mortgage subsidy payments (discussed below) up to a maximum of $125,000 and reimbursement of certain relocation costs."

Nowhere in that—and I can read on—do I see anything that speaks to the granting of this portion of his contract for severance if he resigns. We'd all agree: He resigned. You've stated that there was a discussion and the board felt that it was in everybody's best interests, and certainly for the going-forward of the corporation, that Mr. Parkinson no longer remain as CEO. But he did resign. There's no reason, no justification in his contract that I can read for granting him the $3-million severance package. What can you tell me as to how you decided—and you've already said that the board "decided" to honour these severance provisions. Why did you do that? What is the justification, if he resigned?

Ms. Burak: Thank you again for the opportunity to put on the record the actions of the board. I will simply repeat again: The board agreed that his departure would be in the best interests of the company. The former CEO, in discussion with the board, elected to resign so that his presence would no longer be a distraction. But first and foremost, the board took the decision that his departure would be in the best interests of the company and, under the circumstances, applied the severance provisions of his contract, which enable us to terminate his employment without notice and without cause, for any reason whatsoever, in which case, in our view and with legal advice, the severance provisions applied.

Mr. Yakabuski: With all due respect, you've given me a little bit of a history, but I guess the question is, what is the justification? The $3-million expenditure: What is the justification? He did resign. He could have gone, under the understanding of his contract—let's say the auditor's report hadn't come out. Nothing happened. He walked into your office one day and he said, "Rita, I'm out of here. I'm resigning." He wouldn't have been paid $3 million. He resigned. Why is he being paid $3 million?

Ms. Burak: He is being given a severance because the board agreed that his departure would be in the best interests of the company. This is why we honoured the provisions of his contract, which enabled the board to terminate his employment without notice and without cause, for any reason whatsoever. In our view, and in discussions with the CEO, his departure would no longer be a distraction to the organization, and it was in the best interests of the organization.

Mr. Yakabuski: If he was terminated with cause, I suspect that that would be in the best interests of the corporation as well. So "being in the best interests of the corporation"—I'm not sure that I accept that as being a justification for paying him $3 million, because if he was terminated with cause, he wouldn't get his package either. And that would definitely be in the best interests of the corporation: if he was terminated with cause.

I want to move on to another—I don't know if I've got—

The Vice-Chair: Yes, you have about two minutes left.

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Mr. Yakabuski: Well, maybe we won't. We might pick this up after lunch, then.

I guess we're going to stay on this issue, then, for two minutes. If, on the one hand, we have the ability to say, "If there's a cause for terminating a CEO or anybody else, they're not entitled to their severance package," then I'm sure anybody who's responsible would agree that if there's a cause to terminate someone, that must be in the best interests of the corporation, because "cause" would indicate that there has to be a justification for letting that person go. So on the one hand, if you're saying there's no cause, but he's resigning, I just don't get how you square that, because you're saying, "Because there was no cause, we paid him his severance"—no, your quote was, "Because it was in the best interests of the corporation, we paid him his severance."

Ms. Burak: The board agreed that it was in the best interests of the corporation for him to depart. He was not fired for cause; there were not legal grounds for cause.

The Vice-Chair: Thank you very much. Mr. Hampton.

Mr. Hampton: When these issues were raised with the Minister of Energy, these were the responses of the Minister of Energy related to executive pay, compensation issues at Hydro One. I'm quoting Mr. Duncan: "Our government has confidence in the board of directors and that they will do the appropriate things under all these circumstances." And if I can quote him again: "We are exercising proper leadership by entrusting the board of directors of the corporation to manage the affairs of the corporation in a way that maximizes the benefit of the corporation to the people of Ontario through their government."

I would assume that you notified the government, as sole shareholder in the corporation, of your decision to pay the $3-million severance amount?

Ms. Burak: I believe that you are—the quotes, Mr. Hampton, that you're referring to were given in the context of overall—

Mr. Hampton: Yes, Hydro One.

Ms. Burak: They were in the context of overall compensation.

Mr. Hampton: Yes. So I just want to ask you: I would assume that you notified the government, as sole shareholder, of your decision, the board of directors' decision, your election to pay the $3-million severance amount?

Ms. Burak: Yes, I informed the shareholder that the board agreed, in the best interests of the company, that the former president and CEO should depart and that we were going to exercise the provisions of his contract dealing with termination without cause.

Mr. Hampton: Did anyone in the government—anyone in the Premier's office, the cabinet office, the Minister of Energy, Ministry of Energy officials—indicate to you or other members of the board that your election to pay the $3-million severance allowance was, to use the minister's words, "inappropriate in the circumstances"?

Ms. Burak: No. The board took the decision, as I've outlined, and informed the shareholder.

Mr. Hampton: And no one in the government said, "This is inappropriate"? No one in the government said, "This is not in the best interests of the corporation. This is not in the best interests of the people of Ontario"?

Ms. Burak: I believe there were statements made the day of Mr. Parkinson's departure. I don't have them in front of me, but I would refer you to those.

Mr. Hampton: I repeat the question: No one indicated that this was inappropriate?

Ms. Burak: If you're asking if the government asked or told the board that paying a severance was inappropriate, no.

Mr. Hampton: I want to move on to another issue. As I understand it, the Parkway transmission project was a very important project. Is that right?

Ms. Burak: Absolutely, yes.

Mr. Hampton: Why was it important?

Ms. Burak: Laura, maybe you can speak to the—

Ms. Formusa: It enabled the closure of Lakeview generating station down on the lakefront, which was part of the province's off-coal strategy.

Mr. Hampton: So just tell me: What was involved with Parkway? What did you have to do?

Ms. Formusa: You're probably going to test my technical knowledge here, but—

Mr. Hampton: You're the boss now.

Ms. Formusa: The Parkway TS, and the associated 500 kV lines required to incorporate it into the system, was required to bring stability to the system that might—

Mr. Hampton: The system for where?

Ms. Formusa: The transmission system in—

Mr. Hampton: For where?

Ms. Formusa: All around Toronto, the greater Toronto area.

Mr. Hampton: Okay.

Ms. Formusa: It was situated at Parkway because that was the best spot for us to tie into the 500-kV system, which is located more toward the north part of Toronto.

Mr. Hampton: In 2005, you announced that you had completed the Parkway transformer project on time and under budget. I believe that was the very public announcement. It's my understanding that the final Parkway budget approved in 2004 was $154 million. Is that correct?

Ms. Formusa: I'm going to ask Ms. Summers to talk about the budget that was approved by our board, if that's all right.

Mr. Hampton: Okay, that's fine.

Ms. Summers: Yes, that would have been the budget that was approved.

Mr. Hampton: It was $154 million?

Ms. Summers: Yes, I believe that's the number.

Mr. Hampton: And the announcement was that you brought it in on time and on budget.

Ms. Summers: Yes.

Mr. Hampton: Okay. Were there costs incurred in putting Parkway into service that were not included in the $154-million final amount that was announced?

Ms. Summers: All of the amounts that would typically be included in a project to the finalization would have been included in that amount.

Mr. Hampton: So you're saying there were no other costs that were not accounted for in the $154 million.

Ms. Summers: Not that wouldn't—no. There was nothing that would have been expended after that that should have been included as part of the project.

Mr. Hampton: Were all costs incurred for labour and material related to building and commissioning the Parkway transmission project included in that $154-million final amount that was reported to the public? So, all labour costs and all material costs related to building and commissioning.

Ms. Summers: Yes, labour and materials associated with the project would have been included in the $154 million.

Mr. Hampton: Were there any labour costs or other costs related to putting Parkway into service that were charged to operations, management and administration accounts rather than the Parkway accounts?

Ms. Summers: That wouldn't have occurred for anything that was specifically associated with that project, no.

Mr. Hampton: Okay. Were any materials purchased for the Parkway transmission project charged to the budgets of other projects; for example, the Niagara reinforcement project?

Ms. Summers: Not that would have been specifically associated with the Parkway project, no.

Mr. Hampton: When you say "not specifically associated," what do you mean by that?

Ms. Summers: Why I'm saying "not specifically associated" is because there could have been instances where there would be something done that was really associated with something else. There could have been—I'm just trying to think. In a normal project there could potentially be instances where there is some sort of an expenditure that isn't associated with that project and, if it's not associated with the project, wouldn't be charged to that project.

Mr. Hampton: So in other words, you have discretion as to whether to assign a cost to a project or assign it somewhere else?

Ms. Summers: No. There's no discretion associated with where it goes. There are accounting rules and guidelines that are in place and the accounting is to follow these strict guidelines that would be in place.

Mr. Hampton: Okay. Were any labour hours originally charged to work orders related to the Parkway capital project subsequently transferred from those work orders into operations, management and administration budgets?

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Ms. Summers: As part of the overall Parkway project, as we would do with any large project, there would be a review to ensure that all of the expenditures that are charged to a project are appropriately charged to the project. So at the end of a project or during the middle of a project, on an ongoing basis, from a typical cost accounting standpoint, there would often be charges that would go back and forth so they could strictly adhere to the accounting rules and what is necessary. Specifically with Parkway, there would have been transfers that occurred both in and out and overall for the entire project. In the end, when the accounting was done and the assessment throughout, there were actually more costs that would have been transferred in than out, to again clearly establish what costs were associated with the project and what costs were not associated with the project.

Mr. Hampton: So I'm going to ask my question again: Were any labour hours originally charged to work orders related to the Parkway capital project subsequently transferred from those work orders into operations, management and administration budgets?

Ms. Summers: There were no charges appropriately charged to the Parkway project that would have been transferred.

Mr. Hampton: That's not my question. My question is this—and I'll keep asking this question till I get an answer: Were any labour hours originally charged to work orders related to the Parkway capital project subsequently transferred from those work orders into operations, management and administration budgets?

Ms. Summers: There were no charges associated with the Parkway project that were ever transferred out of the Parkway project.

Mr. Hampton: To operations, management and administration budgets.

Ms. Summers: There were no charges associated with the Parkway project which would have been transferred out. There may have been inappropriate charges which were transferred out, but there would have been no charges associated with the Parkway project transferred out of the Parkway project.

Mr. Hampton: It seems to me the issue of whether it was appropriate or not is something we can get to later. My question is, were there any labour hours originally charged to work orders related to the Parkway capital project subsequently transferred from those work orders into operations, management and administration budgets?

Ms. Summers: As I previously said, there were no charges associated with the Parkway project that were ever transferred out of the Parkway project.

Mr. Hampton: Okay. If you were to discover that there were costs for labour or materials incurred in completing the Parkway transmission project that were not charged to the Parkway project but to other projects, would you consider that to be a problem?

Ms. Summers: If I was made aware that there were any charges associated with any project that were charged to the incorrect project, it would be expected that they would be transferred into the appropriate project, that that would be an issue that would be dealt with and would be transferred back into a project.

Mr. Hampton: So from the perspective of proper accountability, following the rules and guidelines, if you found there were costs for labour or materials incurred in completing the Parkway transmission project that were not charged to the Parkway project but were charged to other projects, you would consider that to be a serious problem?

Ms. Summers: If that were identified, as with any other project, we would deal with that and that would be transferred into a project. It wouldn't accurately reflect the cost of a project, and that's an important thing from an accounting standpoint. Clearly that is something which is important, so we would transfer those costs into a project.

Mr. Hampton: My question is, again: If you found that was the case, that would be a serious problem?

Ms. Summers: That would be an issue that would have to be dealt with. Those costs would be transferred into the appropriate project so the dollars that are reflected are accurately associated with an asset that was put in place—

Mr. Hampton: Because that would be a serious problem?

Ms. Summers: —which is fundamental to the organization and to the accounting so that we fairly state our financial information.

Mr. Hampton: Following the hearing of the standing committee on government agencies last September, did Hydro One commission an audit of the Parkway project?

Ms. Burak: No, we did not, but we did, with the CFO, go over the final process that she has described that would accompany any large project at the end.

Mr. Hampton: So did you do a financial review of the project?

Ms. Summers: On an ongoing basis, we would do a review of the overall finances of a project. That's something which we would follow and that's a process which would be in place for every project throughout the project. Parkway was no different, so throughout the building of Parkway, a review would have been done at specific checkpoints to ensure that the cost for Parkway reflected the costs for Parkway.

Mr. Hampton: So did you do a review last September following the standing committee on government agencies meeting?

Ms. Summers: We would have done reviews throughout. After the previous committee meeting, I did have a discussion with the cost accounting people to understand the processes that they did employ around Parkway, to ensure that the processes which normally would have taken place were done throughout that project. It was treated consistently with the way we treat all projects throughout.

Mr. Hampton: Were there any changes made following that meeting or that discussion that you would have had last September or last October following the standing committee on government agencies meeting?

Ms. Summers: Not that I'm aware of, no.

Mr. Hampton: Okay. I wonder, would you have a breakdown of all the investment planning numbers, project numbers and work orders that were tallied up to arrive at the final $154-million cost for the Parkway transmission project?

Ms. Summers: I don't have them with me, but that is something which we would have.

Mr. Hampton: You would have that?

Ms. Summers: Well, there would be—all of the projects are built and are broken down into work orders in the way that the cost accounting processes work with respect to a project. Labour hours, supplies, materials are charged to a project based on these work orders, which are linked back to various things. They're linked back to time sheets; if there were any corporate credit card purchases done associated with the project, that card would be linked. The procurement purchases, anything drawn from inventory is all linked to various work orders, projects and programs.

Those charges would then get gathered as a project, so there would be information which builds up—that builds to the entire project. On an ongoing basis, there would be a project manager. A project manager would assess and look at those costs, and that would be part of an overall process. In addition, there is finance support, which on an ongoing basis would monitor, conduct reviews and look at the process through time.

Mr. Hampton: I think you probably understand why I'm interested in this. One of the things the auditor says in his report is, "We found that Hydro One generally had adequate policies in place to help ensure that goods and services were acquired with due regard for value for money. However, systems and procedures were not adequate to ensure compliance with corporate policies."

So this was a big project.

Ms. Summers: Yes.

Mr. Hampton: So I guess my question then is, could you produce a breakdown of the investment planning numbers, project numbers and work orders that were tallied up to arrive at the $154-million cost that was publicly announced? Do you have those? Can you provide them?

Ms. Summers: That's something that we could provide, absolutely.

Mr. Hampton: Okay. I wonder if you could also provide accounting documents indicating which investment planning numbers were approved for use for the Parkway transmission capital project.

Ms. Formusa: Can I just be clear on that? Sorry, the accounting—

Mr. Hampton: Provide the accounting documents indicating which investment planning numbers were approved for use for the Parkway transmission capital project.

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Ms. Formusa: Could I just add, Mr. Hampton, that after the committee hearing in September—I mentioned in my opening remarks that we are working on improving our relationship with the Society of Energy Professionals. They had raised—

Interjection.

Ms. Formusa: Pardon me?

Mr. Patten: I'm just curious if this line of questioning about this project—I mean, it's not even in the auditor's report, I don't believe. It has taken up 10 or 15 minutes of questioning. I just remind Mr. Hampton that he should stick to the auditor's—

Mr. Hampton: I think this goes to the heart of the auditor's report. The auditor has said that the problem at Hydro One isn't that there aren't policies in place; the problem is that policies and practices aren't being followed. We saw how that was true with the chief executive officer. This is a big project, so I think we should have a look at it.

Ms. Formusa: What I was going to say was that I am having a look at it with Mr. Müller, who is the president of the Society of Energy Professionals. They had raised some concerns at that committee hearing, and he and I are going to set up some meetings to review exactly what you've just asked about.

Mr. Hampton: As somebody who has an interest in hydro issues in Ontario, I'd like to see that too.

Ms. Formusa: We've agreed.

Mr. Hampton: Good.

The Vice-Chair: Thank you. Any further questions?

Mr. Hampton: I do have a couple.

The Vice-Chair: You have two minutes.

Mr. Hampton: I'm interested in the very big outsourcing that happened; I believe it's the Capgemini outsourcing. One of the things I wanted to ask you about that is, I'm told that there was supposed to be some fairly explicit benchmarking. Is that correct? It's a $1-billion contract, isn't it? It's a $1-billion outsourcing?

Ms. Summers: Over the 10-year period; yes, that's correct.

Mr. Hampton: But as I looked at the auditor's report, the auditor indicated that not all of the benchmarking that was supposed to have been done to ensure value for money is in fact being done, that only some benchmarking was being done.

Ms. Summers: That is correct. As we went through the process and we went to do the round of benchmarking—and that is a key attribute in that overall outsourcing agreement, the ability to benchmark—there were two lines of business that could be benchmarked. We did do a request for proposals from organizations to benchmark the entire contract; unfortunately, we were unable to find somebody. We did benchmark a portion of it, which amounted to 60% of the overall contract, but we could not find somebody to do the benchmarking for the other services. But certainly as an organization going forward, as outsourcing is more broadly implemented across industries, we would hope that we could benchmark 100% of that contract at the next point in time when we can do that.

Mr. Hampton: I think you'd agree with me that $1 billion is a lot of money.

Ms. Summers: Yes, it is.

The Vice-Chair: If we could stop there. That consumed your time. We'll do it the next time around.

Mr. Hampton: Okay, I'll come back to it.

The Vice-Chair: Mrs. Sandals?

Mrs. Liz Sandals (Guelph–Wellington): Thank you. I'd like to follow up a bit on the transmission project and transmission and other issues.

First of all, let me congratulate you on being in a part of the province this summer that got a lot of twisters and tornadoes. In fact, even though we were out for quite a number of days, my observation would be that Hydro One, the local distribution company and other companies that came in from outside the area actually seemed to be working very well together to get what was quite a mess back up. Having been through a number of these summer storm episodes over my life, I thought things unfolded fairly well.

In my part of the province, which is more southern-rural—I'm from Guelph—one of the things there has been a lot of excitement about is the whole issue of standard offer contracts and net metering. Given that I've got a local distribution company, my constituents don't necessarily deal with Hydro One directly a lot. The concerns around Hydro One are often related to the accounting, technical and transmission issues around implementing standard offer and net metering. Are you making any progress in being able to facilitate that?

Ms. Formusa: Yes, we are. We didn't expect, quite frankly, the volume of contracts that would be coming forward, and we had to staff up quite quickly in order to handle that. I'm comfortable now that we have the resources in place to manage the workload, but it is a significant workload and we're doing our best to comply with all of the various requirements around the standard offer program and making sure that priorities are appropriately managed so that everyone is treated fairly under the program.

Mrs. Sandals: Certainly it would be very helpful if that could be rolling out a little bit more quickly.

Ms. Formusa: We are working on it.

Mrs. Sandals: I'd like to go back and talk a little bit more about the corporate card because, as I've listened to the exchange over the course of the morning, it sounds like you use these corporate cards in almost a different policy way than most businesses or public sector organizations that I've been aware of tend to use purchase cards or corporate cards. It sounds to me like you almost, as a deliberate policy, use them more for purchasing and reimbursement than most of us would be accustomed to. I wonder if you could explain to us why you seem to rely so very heavily on corporate cards for things that a lot of us wouldn't normally expect to be putting on a corporate card.

Ms. Summers: We use the corporate credit cards really as a method of payment. Any purchase on the corporate credit card is to follow and adhere to all of the procurement policies and procedures. From an overall standpoint, we're a very decentralized and large organization, and as a result there are instances where, to keep the day-to-day work going on a timely basis, the corporate credit card is a tool that enables. Specifically, if you look at emergency work which would occur, as emergency work may happen in all parts of the province, the ability to use that corporate card to make purchases is sometimes key in being able to get the lights on as quickly as possible. So when you look at it overall and the dollar amount, the $127 million, it is because we take a broader perspective overall and use it as a method of payment.

There are controls in place. I'll reiterate that it is meant to follow all of the procurement processes. The Auditor General identified instances where the documentation wasn't always sufficient. We've dealt with that, and we'll deal with that through a compliance organization going forward. But it is a key tool we require on an ongoing basis to keep working and get the lights on as quickly as possible.

Mrs. Sandals: So you're really using it almost in terms of paying living expenses of crews that are out on lines over prolonged periods or buying materials locally where you may not have them stockpiled, that sort of thing?

Ms. Summers: Yes, that is the case; those types of expenditures would be there. For those local purchases required to do work, they would go on a card now. That being recognized, that would be only up to the levels that are allowed for local purchases. If a very large expenditure were made on a corporate credit card—and there are certain instances when that might occur—if it were for a larger amount, like over $15,000, then you would still be expected to have your three quotes to ensure that we get value for money in those purchases. So there are instances where you would still have quotes although a corporate credit card is used as a method of payment.

In addition, there are also other instances where we might use a corporate card if there are benefits when they're larger purchases, but they would be specific cards, which could be called ghost cards. So there actually isn't a card; it's a method of payment, but there are transactions occurring. It's completely blocked, so it would only be useful with one vendor. An example would be a telecommunications vendor.

1150

Mrs. Sandals: So some cards are people-specific and some cards are project- or purpose-specific then?

Ms. Summers: Every card would be associated with a specific employee, but the cards themselves, yes. A card for predominantly business expenses which would be more of a travel nature, such as my card, would be specific to me and, from an overall accounting standpoint, would get charged and distributed to my cost centre. Another card which is associated with a project would be charged to the project, but it would still be in the specific individual's name, who is the only person who can use the card. Even a ghost card would be associated with a specific name.

All of the cards would have features in place, so those project cards would have blocks. There are certain places where you cannot use the cards. An example of that would be when we sent our crews down to help in Florida. One of the issues that we actually had for the first day or two was that all of those cards were blocked; you couldn't make US purchases. So we had to actually go through the process of administratively adjusting the cards to allow for the US purchases. Then, when the people returned to the province after completing that work, we put the block back on.

Mrs. Sandals: The other thing I'm beginning to wonder about, as I've heard you answering questions, is that we're sort of talking about cash advances and I wonder if in many cases that's actually an unfortunate misnomer. If it were me, I would be filling in a mileage expense form, a taxi chit expense form and all these sorts of things and sending it off to somebody here at the Legislature, and after umpteen weeks, somebody would eventually send me a cheque back to reimburse me. It sounds to me as if you're doing that reimbursement of routine mileage and taxis and those sorts of things that you would normally pay out of pocket; that you're using not so much a cash advance, but you're using that to reimburse people appropriately for expenses which they have already incurred out of pocket.

Ms. Summers: Yes, that's the intention of the feature of the card. That, in accordance with procedure, is what it's to be used for, yes.

Mrs. Sandals: But the person then should still be submitting the same form that I'm submitting, in essence, but that would go with the documentation with the credit card. You've got your mileage claim, your taxi chit claim and those sorts of things.

Ms. Summers: Yes. The actual credit card statement would have identified on it the cash advance taken out, or the cash removed from the card. The associated supervisor is to look, identify, see that the cash advance was there. The support for that, as opposed to a receipt, should be an itemized listing of what that cash usage is to approve. So the supervisor is approving the fact that there was appropriate reimbursements and there were appropriate business expenditures associated with that.

Mrs. Sandals: Then, of course, the issue is to make sure that all those mileage logs or all those cash expense logs have been completed and are on file. Because, as I say, most of us are accustomed to the other system where you fill in the form, send it off and eventually the cheque comes back. Is there some sort of corporate advantage to paying it as credit card payment block as opposed to processing the individual cheques?

Ms. Summers: It's administratively less expensive to use a cash advance feature, because the individual who incurred the expenses—and then it would be approved in a process which is already established. So it's less expensive to administer that.

Mrs. Sandals: So while you obviously need to be careful that the documentation is there, when you put it all together, you've actually reduced your administrative costs by handling it that way.

Ms. Summers: Yes.

Mrs. Sandals: Thank you very much. I'm going to share my time, if I may, with my colleague Mr. Milloy.

Interruption.

The Vice-Chair: What's the noise?

Mr. Yakabuski: Somebody's got a BlackBerry.

The Vice-Chair: I would just request, if somebody's BlackBerry keeps going off, if they would just shut it off.

Mr. John Milloy (Kitchener Centre): How much time, Mr. Chair?

The Vice-Chair: Seven minutes.

Mr. Milloy: Seven minutes, okay. I want to get on another line of questioning, but I want to follow up on something my colleague said about these credit cards. Are there controls in place on the circumstances of the purchase? Obviously there are things that everyone would understand are legitimate or not legitimate purchases, but I'm also thinking of the circumstance where someone is going to an outside supplier for some parts or material which they could have easily gotten back at the depot, that sort of thing. Are there controls in place so that people realize that when they are sort of going outside of the norm, as you state, for emergency things, it has been justified?

Ms. Summers: People would be aware and should be aware of what we might have, a blanket purchase order or something, that would typically be available in a service depot. They're expected to use that from the service depot. They're expected to use the blanket purchase order where that is in place. From a control standpoint, the control associated with those types of purchases would be that the supervisor would be expected to be aware of those. If they identified that one of those expenditures was in place and on the card, then going forward that would have to be dealt with.

Mr. Milloy: I wanted to just change topics here, and actually I think my colleague Mr. Patten mentioned some of this in his questioning, but I just want to get clear in my mind the procedures that you follow for audits within the company. Obviously, the Auditor General is a new twist, but how is the corporation—I guess it's a corporation where the 100% shareholder is the government. How are there both internal, external—what is the regime that's in place, whom do you report to and how and all that sort of thing?

Ms. Formusa: I'll start with a general overview, and then Ms. Summers can fill in. For the external audit, of course, the auditor is appointed by the shareholder on the recommendation of our board of directors and does the annual financial audits of our financial statements. That process is being completed just now. Our internal audit function on an annual basis sets up a program to determine which audits should be undertaken. Because resources are not always there to do all audits, we prioritize them. We do that as a management team and then the internal auditor comes forward to the audit and finance committee of the board and presents the plan for the year.

The committee can and sometimes has recommended that perhaps they bring some audits forward or delay others.

The auditor also reports on a regular basis to both management and the audit finance committee on the findings of audits. In particular, the auditor reports to me on a regular basis on the ongoing audits that are occurring. So that's just a general overview of how the program works at Hydro One. If you'd like more specifics, then I'm sure Ms. Summers could provide them.

Ms. Summers: I think from a specific standpoint what I might add is that the findings which are identified through the process of the internal audit—for all of the high-risk/medium risk-type areas which would be identified, there is quarterly reporting. That quarterly reporting is provided to the president and CEO on an ongoing basis every quarter. For all the various areas which may have findings, I certainly have to report on progress, where those stand. After it is closed, it would be moved off to quarterly report, but certainly the internal audit, consistent with what the Auditor General would do, would go back in and re-test another point to make sure that compliance is occurring on an ongoing basis, so we continually learn from those findings and implement them. But we do have a very rigorous process to ensure that once something has been identified, it is acted upon and dealt with by the management team.

Mr. Milloy: But these audits aren't simply to make sure everyone's following the rules; it's also to keep costs under control? Presumably, you're using them also for moving forward and making sure that you're reducing costs or increasing productivity, that sort of thing. Are they used for that function as well in terms of ensuring the profitability of the company?

Ms. Summers: The overall internal audit function deals with various aspects of the business. It would look at the health and safety processes that are in place as well as financial processes in place, and specifically we would also have specialists in the information technology area. As they go through the process, if the internal auditors identified where efficiencies could be achieved, they would be flagged, absolutely.

Mr. Milloy: What have been the findings of these audits in general over the past few years? Have there been increases in productivity and savings and that sort of thing?

Ms. Formusa: If the auditor has gone in and done an audit on a particular matter and there were issues identified in the audit, I would expect on the re-testing that he would come back and find out if there were tests specifically for any efficiencies that he had identified to ensure that they were captured. But that's management's role on an ongoing basis as well, so we wouldn't drop the ball and wait until the next audit; we'd be continuing on, just as we will with the Auditor General's findings. We're not just going to implement and then leave it until the auditor comes back; we have an ongoing process in place, so it will be reported on to the management team, and I suspect we'll do it on a regular basis to our board in light of this particular audit.

The Vice-Chair: I think, Mr. Milloy, that concludes your time.

I understand from the committee members that they still have a number of questions they would like to ask, so I ask the guests' indulgence to return. We will only break for half an hour for lunch, and if we could then continue after lunch with our circle, hopefully it won't take too long to complete the questions.

The committee recessed from 1203 to 1234.

The Vice-Chair: We'll call the meeting back to order. I'm glad to see that all the committee members who were so anxious to ask more questions are back to get on with it.

There will be more water coming, Mr. Yakabuski, but you're going to be too busy to drink it because it is your turn to take the floor. With that, we will ask Mr. Yakabuski to again proceed.

Mr. Yakabuski: Thank you very much, Chair. Thank you for that long lunch break. Back to the proceedings.

First off, I just want to pick up on something that Ms. Sandals had said earlier with respect to the number of significant weather events this past year. I can tell you that in my neck of the woods, up in Combermere, we were hit with the strongest tornado of the season in Ontario. I must say that Hydro One's crews, as well as the municipal officials and all of the local people who pitched in, did an absolutely tremendous job. I have let them know in no uncertain terms what a great role they did play getting that community back on its feet in the shortest possible time. Having said that, it'll be decades before it looks the same because of the amount of damage that was sustained with the loss of hundred-year-old-plus trees, etc. But I must say, the professional people of Hydro One did a tremendous job there.

Speaking of professional people at Hydro One, Ms. Formusa, you raised the issue that you're attempting to improve your relationship with the Society of Energy Professionals. I know that when they spoke to the government agencies committee last fall, I guess it would have been, clearly there were some significant issues in their relationship with Hydro One. I'm going to ask you point blank, because they certainly seemed to believe that that was part of the dynamic, that the former CEO himself, Mr. Parkinson, seemed to have a personal goal of weakening if not eliminating that group. I'd like you to comment on that.

Ms. Formusa: What I can say in that regard and what I said to the society members when we met last week was that Hydro One has absolutely no intention of eliminating or in any way significantly reducing the bargaining unit. That is not an objective of the company. Our objective is to work co-operatively with them. They are the management and professional staff of the company; they contribute significantly to many of the projects we've spoken about today; they are valued employees. So I look forward to a very healthy relationship with that bargaining unit.

Mr. Yakabuski: During Mr. Parkinson's tenure, going in and leaving, what were the respective numbers of the Society of Energy Professionals who were employed at Hydro One?

Ms. Formusa: The number of society members at Hydro One members has fluctuated throughout the course of its short history here since 1999. I believe that at one time there were at approximately 1,000, and right now I believe the number is around 730; that was the last number I saw. The numbers do go up and down depending on retirements. You may be aware that we have a large issue with respect to the demographics amongst all of our employees, not just the society. The average age in the company is about 46. Within the next five years, 25% of our workforce can retire. We've seen some retirements, we've seen some movement amongst our staff, but the numbers right now are about 730.

1240

Mr. Yakabuski: Would you say it's fair to say that, during the term of Mr. Parkinson, that relationship was—and I respect your commitment to ensuring that there is a good working relationship. Would it be fair to say that that relationship was strained?

Ms. Formusa: I think it's fair to say that Hydro One's relationship during the course of the labour dispute with the society was strained.

Mr. Yakabuski: Thank you. I want to go back to the end of the employment of the CEO, Tom Parkinson—I can't say "the resignation"; I can't really say "the termination without cause," because it is all so confusing. In fairness to Ms. Burak, the chair, it's a real mixed message. If Tom Parkinson was terminated without cause, then he had every right to the severance package he was given, but you've maintained consistently that he was not terminated without cause, but he would be treated as though he was terminated without cause but we're going to call it a resignation. We need to pick one of those. Did Tom Parkinson resign?

Ms. Burak: I appreciate the opportunity to further clarify the circumstances surrounding the former CEO's departure. I would repeat what I said earlier. The board agreed that his departure would be in the best interests of the company, and we elected to apply the severance provisions, which allow us to terminate his employment without notice for any reason whatsoever, in which case he would be paid a severance.

The issues that were raised in the Auditor General's report, as I acknowledged at the outset, should not have happened. Of course, they were viewed very negatively by the public, but they were not legal grounds for cause. So the former CEO, in discussion with the board, agreed that, yes, he should resign because then his presence would no longer be a distraction for the organization. I'm not denying that the board applied the severance provisions to his departure in light of the circumstances.

Mr. Yakabuski: So he was terminated without cause?

Ms. Burak: We agreed that his departure would be in the best interests of the company, and we elected to apply the severance provisions of his contract, which allow us to terminate his employment without notice for any reason whatsoever. Certainly this was done in light of the Auditor General's report. He was not fired for cause.

Mr. Yakabuski: I guess I could ask the same question again, but I'm pretty sure that I'm going to get the same answer. The modus operandi here seems to be what was in the best interests of the corporation. Would you say that it is in the best interests of the corporation, or any corporation, if the board of that corporation or this corporation decides to spend $3 million that it didn't have to spend?

Ms. Burak: Obviously, you're asking the question in relation to the approximate severance amount. According to the circumstances and according to his contract, we did the right thing.

Mr. Yakabuski: Actually, I was just asking the question, a very straight question: If a board is operating in the best interests of the corporation that it represents, would spending $3 million that it did not have to spend be an example of operating in the best interests of that corporation?

Ms. Burak: In the general sense in which you put the question, of course, yes.

Mr. Yakabuski: It would? If they were spending $3 million they did not have to spend, that would be in the best interests of that corporation?

Ms. Burak: Sorry. If they were spending $3 million that they did not have to spend, obviously that would not be right.

Mr. Yakabuski: That would not be in the best interests of the corporation?

Ms. Burak: That's right.

Mr. Yakabuski: We're making some headway here. All along you've said that the board has tried to do what was in the best interests of the corporation. I'm just going to ask for a simple yes or no answer to this. Yes or no—I know that's difficult—did Tom Parkinson resign?

Ms. Burak: I'm afraid it's not a yes or no answer because the context for such an extraordinary event must be put on the table. The board agreed that his departure would be in the best interests of the company. In discussions between the former CEO and the board, yes, he knew that his presence on an ongoing basis would be a distraction for the organization. In those circumstances, yes, the board opted to use the provisions of his contract which enable us to terminate him without notice and without cause for any reason whatsoever.

Mr. Yakabuski: I think it's fair to say that no one would ever resign without some sort of reasoning, whether it was on the part of their employer or themselves, to come to some kind of conclusion. I don't know how extraordinary one circumstance is over another if you come to the conclusion that you're going to resign. In everybody's life and in everybody's job there are a myriad of issues churning around at any given time. When someone makes the conscious choice—for them, the correct choice—to resign, at the end of the day it's yea or nay: Did he resign or did he not resign? We know some of the circumstances because they have been brought to light as part of the Auditor General's report.

But when I look at that contract, it doesn't say—there's the provision about the severance if Mr. Parkinson was terminated without cause. There's no additional part here that says, "He could be terminated without cause but we could call it a resignation if that's what looks good in the newspapers or on his resumé"—I don't know; whatever. There's no provision in there. It's just simply a choice: Are you terminating without cause or is Mr. Parkinson resigning? Can we say that he simply resigned, or would you say that for me?

Ms. Burak: When the board determined that it was in the best interests of the company for the former CEO to leave the company, we made a determination that the severance provisions of his contract should be honoured. Those provisions, which I think you have before you, enable us, without cause and without notice, to end his employment for any reason whatsoever. The former CEO, in discussing this with the board, was co-operative in this regard and, yes, elected to resign. But the understanding was that we would honour the severance arrangements of his contract.

Mr. Yakabuski: Ms. Burak, I do appreciate your patience because it does seem somewhat repetitive, I know, but the people really do expect to be able to evaluate this and analyze it in some kind of way where they can put—they'd like to remove a little bit of that greyness that seems to be percolating here and causing a great deal of this confusion. They just want to know, "Can we say that he resigned, or did he get fired with cause?" The only way that he's going to get the severance is if he gets fired without cause, because, you see, that's what's in that darn contract. So he must have been fired without cause. But no, clearly the word from the board of Hydro One is that he resigned, but then there are these conditions attached.

1250

It's really, really difficult for people; for example, people in my riding. The average person in my riding would have to work more than 100 years at their current rate of pay—I'm assuming they might get a raise sometime between now and then, so we'll say their current rate of pay—to get $3 million. So it's not a small amount of money we're talking about. It's not $10,000. It's a huge severance.

I think it's fair to ask, is this what happens when anybody's employment ends with Hydro One? Did we work out some sort of deal that, nudge, nudge, wink, wink, "We're going to give you the severance, but we're going to say that it was a resignation because that's really in your best interests"? I don't know what went on in the committee room where this was discussed, but I think people have a real concern that someone can resign—you know, somewhere in the records at Hydro One, do they keep a record as to how the employment of Mr. Parkinson ended? Is there a box when you fill out your forms for employment insurance or something—and I don't imagine he's going to apply for employment insurance—that says "fired," "laid off" or "quit"? When I was in business we used to have this form we had to fill out; we called it a record of employment. Is there something official in the offices of Hydro One where we've just got a box checked off, not a whole long, copious explanation of why we're spending $3 million? Is there something there that says that he quit or was fired without cause?

Ms. Burak: Mr. Yakabuski, I really do respect the fact that you want to understand fully the circumstances surrounding the departure of the former CEO, and I really am trying to be candid with you about the circumstances.

The issues in the Auditor General's report relating to the CEO, as I said at the outset, should never have occurred, and we have fixed that problem going forward. They were viewed very negatively by the public, but they were not legal grounds for dismissal. Given the circumstances, the board discussed and agreed that his departure, his termination, would be in the best interests of the company, and we elected to honour the severance provisions of his contract. I've done my very best to explain the circumstances, to candidly outline the board's reasoning for its actions, and I'm afraid I can't add any more to what I've already said.

The Vice-Chair: That will conclude your time, Mr. Yakabuski. Mr. Hampton?

Mr. Hampton: I wanted to ask some more questions about the $1-billion outsourcing agreement. As I understand it, depending on how you look at it, either six or seven areas were outsourced: (1) customer service operations, (2) information technology, (3) supply management, (4) human resources, (5) finance, (6) accounting services, and (7) I guess would be something called settlements. Okay? Now, as I understand it, these things were to be benchmarked in years 3, 6 and 9; at least, that's what it says in the agreement. Year 3 has passed. Is that correct? Year 3 of the agreement has passed? That would have been in 2005?

Ms. Summers: Yes.

Mr. Hampton: As I understand it, you only benchmarked in two of the seven areas. What were the two areas where benchmarks were established?

Ms. Summers: Information technology services and customer service operations.

Mr. Hampton: Information technology services and customer services. So that means there was no benchmarking in supply management, human resources, finance, accounting services, and something called settlements.

Ms. Summers: Yes, that's correct.

Mr. Hampton: Okay. I guess the question I want to ask, then, is, if you've only benchmarked in two of the seven areas, how do you know you're getting value for money?

Ms. Summers: When the contract was originally established—and it has also been reviewed by the Ontario Energy Board, looking at the original provisions of the contract and the declining costs—originally built into the pricing of the contract was a reduction in the costs over the period of time of the contract. The provisions were in years 3, 6 and 9 so we could do external benchmarks, and we did do those external benchmarks for those lines where we had the ability to hire somebody—correct, two—which was 60% of the overall contract for which we could identify somebody that would actually do that work for us. Going forward, we will benchmark every line for which we can find an external person who will do the benchmarking for us.

Mr. Hampton: I guess I'd ask the question again. As I understand the benchmarking, that was to determine if, compared to other operations, other companies, you were getting best price, best cost. If you can't do the benchmarks, how do you determine whether you're getting the best deal you can or the best deal that you were supposed to get?

Ms. Summers: The benchmarking was established as a checkpoint in the contract. Our intention, when we entered into the contract, would have been to do the benchmarking at year 3, in accordance with the provisions of the contract. We did go to market to identify people to do the benchmarking for us. We were able to hire people to do 60% of the contract, so the two service lines. We were unable to hire the services for somebody to do the benchmarking of the others. As an organization, to have comfort on the overall pricing or the value—because when we initially established the contract, the contract as it was established was viewed with a declining cost line. Because they were adhering to the declining cost line, we were relying on that because we did not have the ability to go to a third party to do that benchmarking at that point in time.

Mr. Hampton: I'll come back to that in a minute. The auditor suggests that benchmarking be done on all lines of the business. That's a specific recommendation of the auditor's report: that benchmarking be done on all lines of business awarded to Inergy to ensure that Hydro One is getting its money's worth. Looking at it, I think we're now in year 5 of the contract?

Ms. Summers: Yes.

Mr. Hampton: So we're halfway through the contract. Is there going to be benchmarking of all lines of operation? When is that going to happen?

1300

Ms. Summers: We're committed as an organization to do the benchmarking for all of the lines of services available. The findings of the Auditor General report did identify that we should benchmark all of them. We agree. We will benchmark all that we can. At the point in time of the benchmarking for year 3, we were unable to procure services from an entity that would provide us that external benchmarking for more than the two services, so 60% of the contract. We will do that going forward for every line of business. Hopefully, by year 6 we would be able to get benchmarking for 100% of the services.

Mr. Hampton: You're benchmarking in customer service operations and information technology. Relative to supply management, human resources, finance, accounting services and settlements, how large is the area that has been benchmarked in money terms, as compared to the $1 billion? Sixty per cent?

Ms. Summers: Well, 60% was benchmarked. I think finance and accounting we generally would view as one service line together. So of the six lines of business, we benchmarked 60%. That would be based on dollar value, so it would be 60% of the entire contract.

Mr. Hampton: So roughly $400 million has not been benchmarked.

Ms. Summers: But the $400 million would be associated with the 10 years of the contract. That was just benchmarking not done on the initial three years, so it would be a portion of that.

Mr. Hampton: I want to ask again: when is the benchmarking in the other areas going to occur? It was supposed to occur in year 3, year 6. When is it in fact going to occur? Is it going to occur next year on all of the other areas?

Ms. Summers: Our intention was to benchmark at year 6.

Mr. Hampton: Yes. Is it going to happen?

Ms. Summers: Yes. We're committed to benchmarking. It will happen, assuming that we can identify a third party to do 100%, but we will do it for every line of business that we can.

Mr. Hampton: Over and above the initial $1-billion deal, it appears that additional contracts have now been awarded to Inergy. What's the value of those contracts?

Ms. Summers: I can't recall off the top of my head, but that's a number we can provide, obviously. There would be additional services that would have been purchased from the Inergy organization, which does the outsourcing.

Mr. Hampton: So do you know how many additional contracts?

Ms. Summers: That information can't be provided off the top of my head. I don't know. I'm sorry.

Mr. Hampton: You don't know the value of the additional contracts.

Mr. McCarter: There's a bit of information on page 170.

Ms. Summers: Yes, I was just flipping to the Auditor General's report.

Mr. Hampton: I'm sorry; I may have missed it. That's actually in your report?

Mr. McCarter: It's about $49 million.

Mr. Hampton: An additional $49 million?

Mr. McCarter: Yes.

Mr. Hampton: So in the awarding of that additional $49 million, are these for new areas? Are these for extended services?

Ms. Summers: Predominantly, those would be associated with additional information technology projects that would be done on the information technology systems we have in place at Hydro One.

Mr. Hampton: Are those benchmarked as well?

Ms. Summers: The services provided? The services provided would be in accordance with rate cards that were established, and we have done benchmarking associated with the rate cards for the information technology services.

Mr. Hampton: Can I ask you a couple of other questions? I'm told that work on the power line municipal transformer station resulted in some very significant cost overruns, that initially the cost estimates for customer capital contributions were to be $162,178. When it finally came in, was completed, customer capital contribution as of September 2006 was $910,290. So it went from $162,178—the original cost estimate—to a final cost of $910,290. That's a whopping big increase. I guess it's about five times what the cost estimate was.

Ms. Formusa: We're not familiar with the project you're talking about or the dollars you've identified. Could you give us more information?

Mr. Hampton: This is the power line municipal transformer station. Can I ask you to check those estimates?

Ms. Formusa: Sure.

Mr. Hampton: And if I'm right, if the cost estimate went from $162,000 and the actual cost was $910,000—in other words, about five times—what could happen that would drive up the cost of an operation five times the cost of a capital project book, five times over what the cost estimate was?

Ms. Summers: I would assume that any time an actual cost increased by that much, it would be linked back to the initial engineering or estimate, or the scope of the project in the end would be different. So there would have been changes associated with the project. Typically, that's what you would see if you ever had an increase that large occurring that there would be fundamentally something different about the project from the initial estimate.

Mr. Hampton: I want to ask you about the Belle River transformer station. That was the building of a new transformer station. I'm told that Hydro One's records indicate that there was somewhere in the neighbourhood of an $840,000 cost increase over what was originally estimated, or what would have been a reasonable original estimate. Can you tell me about that?

Ms. Summers: I don't have any specifics on the Belle River project. Certainly, we can provide specifics.

Typically, what would occur on a large project if the costs were increasing is you would have changes overall in the engineering. What could occur is, after the fact, when detailed engineering is done—generally, estimates initially are done on a preliminary basis; all of the detail wouldn't be available. As it gets to actually doing the building, there would be detailed engineering done. At that point in time, what you typically see is a refinement of that estimate, which in some instances could reduce the overall cost and in other instances may increase the cost because the way the work is going to be done would be fundamentally different. It might require more materials and supplies or less materials and supplies. So typically, when those cost increases would occur from your initial planning estimates to your next step, which would be a more detailed estimate, that's possible. In this specific instance, I'm not sure off the top of my head.

Mr. Hampton: I'm also told that when the project was completed, the transformer was filled with contaminated oil. To address that problem, that resulted in additional cleanup costs of $500,000. Can you confirm or deny that?

Ms. Formusa: We'll provide you with that information. But no, I can't do that today.

Mr. Hampton: No, I'm not asking for that today. This all goes to value-for-money, so I don't ask you to have all of that information.

I want to ask you about the Niagara reinforcement project. As I understand it, that's a major project involving the construction of transmission facilities in the Niagara area. When you submitted your cost estimate to the Ontario Energy Board, you estimated it at $116 million. At least, that's what our researcher found when we checked your submission to the Ontario Energy Board.

I'm told that not only have there been significant delays with the project, but there have been significant cost increases. So I wanted to ask you: In comparison to your $116-million estimate that originally went to the Ontario Energy Board, what have been the cost increases, and what's the rationale, what's the reason for those cost increases?

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Ms. Formusa: We'll have to provide you with that information, if indeed there were cost increases.

Mr. Hampton: Okay.

Ms. Formusa: You do realize that that work is not complete—

Mr. Hampton: I understand.

Ms. Formusa: —so total project costs are not in.

Mr. Hampton: I understand, but I'm told that there have been some cost increases since that initial estimate and I just wonder, what's the rationale for it? What's happened?

I just want to ask you one other question. I'm not sure of this, but it goes back to Mr. Parkinson. Did I hear you correctly when you said that Mr. Parkinson might have to pay back to Hydro One a certain amount of money in terms of a benefit that was received?

Ms. Burak: Yes, I indicated that—first, I outlined the procedure that I have on a monthly basis to approve the CEO's expenses. They're submitted to me, and I review them and approve them. I also indicated that when the board discussed the Auditor General's report and when we got to the specific item relating to the $50,000 that the auditor mentioned, where they found certain expenses that had been placed on the assistant's card related to the CEO, Mr. Parkinson provided the board with a summary of the items that he thought might relate to him and indicated that they were legitimate business expenses, and we had that list.

After his departure, a more detailed review of the expenses of the assistant was undertaken, and in fact his assistant helped us in that regard. There were expenses that in our view were not legitimate business expenses and which, when brought to his attention, we understand through his counsel, he thought he had repaid, and he did repay them. But we did ask for repayment of those expenses.

Mr. Hampton: What were those expenses?

Ms. Burak: It was about $2,000 in transportation expenses, GO train expenses, passes that, for whatever reason, the assistant purchased on his behalf and were not reimbursed.

Mr. Hampton: Two thousand dollars in GO train expenses?

Ms. Burak: Passes, I believe; yes.

Mr. Hampton: The amount is not an issue for me. What would be an issue is, once again, the inappropriateness of charging expenses that are personal or perhaps family expenses in a way which is not supposed to happen. I ask you the question again: Can someone who does that continue, in your view—do they have the credibility to continue in their job?

Ms. Burak: As I've said earlier this morning, Mr. Hampton, what occurred in relation to expenses of the CEO and the administrative assistant's credit card should never have happened. That should never have happened, and I want to repeat again that we have since established a procedure to ensure that it will not happen again. All of the assistant's expenses will be approved by one superior above. I certainly think that we, at the end of the day, did what had to be done in the best interests of the company.

The Vice-Chair: Thank you. Mr. Flynn?

Mr. Flynn: I have a question, and I think some of my colleagues will have afterwards.

Just getting back on the same line of questioning that Mr. Hampton was talking about, I guess when you think about the old Ontario Hydro, you think of some of the large infrastructure projects. I think we'd all agree there's a bit of a spotted history back there. This is the first time this has undergone the sort of review that we are getting from the Auditor General in this, so it's timely that we talk about that and it's a good opportunity to explore whether the process that has been in place or the process that will now be put in place will provide Ontarians with the confidence that they are going to get value for money in the future when it comes to large infrastructure projects.

I wonder if you could speak to the approvals process by the board that currently exists and that may exist into the future: how you prioritize those projects—which one goes first, which one goes at some point in the future; how you monitor whether they're going well, whether there's a problem emerging and how quickly you can act upon those problems; what sort of a track record do you have to date on bringing in projects that are on time and on budget, and what sort of record would you like to achieve, what sort of goal do you have? Presumably it's 100%, but if you could give us some idea, maybe, where we're at right now and maybe—I don't know if this is a question for the auditor or for yourself—the role of the OEB in that whole process.

Ms. Burak: Maybe I'll start and than ask Ms. Formusa to pick up. On an annual basis, the board is presented with the list of major projects that the company will be undertaking, but we're also taken through the way in which management prioritized the projects: What was their rationale for putting one project ahead of another? We then agree, approve the list, and the audit and finance committee would periodically receive reports on status. If there is any extraordinary change, the president and CEO or the CFO would bring it to the attention of the board.

I think it would be helpful for the committee to hear about the very rigorous process that management undertakes, both to determine priorities and to get the costs right. They do spend quite a bit of time on that before it comes to the board. Laura or Beth?

Ms. Formusa: There are a number of processes involved here. In fact, at the beginning, we weren't doing a lot of projects. There wasn't a lot under way, but there are so many projects underway right now that I have instituted a regular report to the board giving a snapshot of each of the major capital projects that they have approved so that they can monitor the progress. We decided to put some structure around that, and that is new, but it is driven by the number and size of the major projects. Rather that just from time to time telling the board about what's happening, we have a regular report. In fact, the CEO would often send updates to the board in between board meetings because they don't meet every month.

Management itself—the process around planning has evolved in the province. Right now, we have the Ontario Power Authority, which is responsible for overall transmission planning. Until that time, and even now, we still play a role, with the OPA, with respect to transmission planning. They are involved in our plans and we input to the overall integrated power system plan that they will be putting forward to the Ontario Energy Board later this year.

Outside of the IPSP, we have our regular planning processes. So annually we would get together as a management team and review the work that needs to be done. It's driven by investment planning. They would look at the reliability needs throughout the province—the loads as they're growing—and determine which projects had to proceed in which order, depending on the in-service dates. So if load was growing at a certain rate, as it was in the Stayner to Essa area, and we needed new transmission in place by 2009, we'd back that up and we'd put that into our plans.

We produced a 10-year plan originally and we kept that as a rolling plan. Projects came in, projects came out, depending on where we were in the process.

That's kind of the overall picture. We are, of course, required to receive approval from the Ontario Energy Board for our projects of a certain size. Actually, it's most of our projects unless they're under two kilometres, and that process is called the leave-to-construct process. So for each of our major projects that falls within the requirements of the act, we would bring the information forward to the Ontario Energy Board with our best cost estimates and seek approval for leave to construct.

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The board has an understanding of what the costs are at that time but, as Ms. Summers explained, sometimes things change in the course of—from approval to construction. We have been encountering, and I'm sure other industries could attest to this as well, commodity prices going up. The price of steel and the price of copper have escalated significantly, and from the time you do an approval to the time you construct or order the materials, prices can change. So there are a number of factors that come into play here. But we take those projects forward, we talk to the OEB about what the costs are; once it has received approval from the OEB, we bring it back to our board for their approval to actually spend the funds. So if a project is at the OEB for $100 million, we would come back to the board and refine the estimate. If it's still $100 million, then that's the number we give to our board. Ultimately, we have to go back to the OEB when we're seeking rate increases, and we update them on the reasonableness of the costs that have been expended. That's a very general and broad overview of what we do.

Mr. Flynn: Just one minor point, to follow up: When you're forecasting or trying to predict what the budget should be, is there an element to the process that would look at or try to forecast any increase in the price of commodities?

Ms. Formusa: Yes.

Mr. Flynn: There is; okay.

Ms. Formusa: Ms. Summers would like to explain that.

Ms. Summers: Yes. We would run, generally, the planning process on an annual basis. However, in certain instances where some commodities would be increasing in a very quick fashion, potentially during that process as the dollars are being established and we're setting up those detailed engineering estimates, there would be some discussion with procurement, who on an ongoing basis would be negotiating and entering into the contracts associated with those. For a very large project, dealing with a very large auto transformer or another piece of equipment which would be expensive and in addition to that also be linked to a lot of the commodity increases because of the overall increasing worldwide demand for them, that would be understood as we refined those estimates. So it would end up being factored into, I'm going to say, the more detailed estimate after the detailed engineering was done.

Mrs. Sandals: Maybe this follows along, because you've been talking about project planning and control. I noticed, Ms. Burak, in your introductory remarks, when we're looking at transmission control, you spoke about consolidating the control centres at Barrie. I'm wondering how that works into your corporate plan and what advantages that gives in terms of the corporation's financial situation.

Ms. Burak: I can tell you that savings were achieved when the centres were consolidated. I don't know whether Ms. Summers or Ms. Formusa have the actual dollars here to tell you about, but that was definitely an important element in our productivity achievements over the last number of years. Not only was it a productivity achievement for the company, but the way in which it was done resulted in a very positive audit of the grid control centre by NERC, the council that ensures that all the transmitters that are on the interconnected grid have done a good job. I don't know whether we have the actual costs for that, but savings were achieved as a result of consolidation. We could get you those.

Mrs. Sandals: I guess, from a public point of view on this one, it also has to do with grid reliability and grid management. Did it, in addition to financial savings, provide some benefit in terms of transmission control?

Ms. Formusa: With respect to the operation of the system, the answer is, yes, it does, in the sense that we've been able to consolidate a number of operational functions in one centre. So we've got both transmission and distribution there. We do outage management from the grid control centre. It has enabled us to take a look in one place at all the issues on the system at any point in time, so it has been very helpful from an operational perspective.

Mrs. Sandals: So that provides a more coordinated response to whatever the current crisis is or just ongoing issues.

Ms. Formusa: Yes, and especially during the summer storms—that was the hub of activity for a lot of the work.

Mrs. Sandals: For managing; getting the system up again.

The Vice-Chair: Mr. Patten.

Mr. Patten: That's all the questions we have.

The Vice-Chair: Ms. MacLeod.

Ms. MacLeod: This morning we talked a little bit about the BPOs, the blanket purchase orders, and I'm just concerned. I want to talk a little bit about competitive selection and single sourcing, or sole sourcing. It seems that there have been inadequate controls in place in both of those areas, according to the auditor's report, and therefore a lack of value for money.

I'll be splitting my time with the energy critic of the Progressive Conservative Party, if I could add that right now. He always has a lot more to say than I do.

Mr. Milloy: He's not as eloquent, though.

Ms. MacLeod: Thank you, John.

We know through the BPO process that there weren't always appropriate measures in place, and we know that there were inadequate controls to ensure compliance.

I've lost my train of thought; thank you, Mr. Milloy.

In any event, the auditor has recommended that "to help ensure that it is getting value for money and that purchases are acquired through an open, fair and competitive process, Hydro One should follow established procurement policies and guidelines, and adequately document decisions made in the selection of vendors."

I do have a question. Hydro One has strengthened its procurement polices to ensure a competitive process. Can you describe the amendments and indicate the implementation timeline for us?

Ms. Summers: Hydro One, as a result of the Auditor General's findings, where it was identified in some instances, through the process, that there was sole sourcing without the appropriate documentation and there were issues identified which were not in accordance with policy—people are expected to follow policy, and we have reinforced that policy with employees through communication.

In addition, as I mentioned earlier, we have set up a compliance organization and put more resources into compliance. There was compliance work being done previously, but we have more resources associated with that, ensuring, on an ongoing basis, that this is adhered to going forward.

With respect to the policies themselves, we did review the policies and revise them in certain instances to ensure that the only circumstances where sole sourcing is acceptable are very clear to people, and in addition to that, we reiterated and looked at the policies associated with when a full RFP is necessary, when advertising in media would be necessary, and clarified those and, again, communicated them, and we established a compliance organization. All of these things have been done already.

The issues around the compliance organization: What happens, typically, is that the organization assesses the progress we're making to compliance on an ongoing basis. So it isn't all perfect immediately. The expectation is communicated out. The compliance organization would identify, walk through, where issues are identified and ensure that those individuals follow up, gather the appropriate documentation and understand clearly what the expectations are. Through time, what you would have is the compliance being complied with all the time, so you don't have these instances which aren't acceptable, where policy is not being followed.

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Ms. MacLeod: Just one final comment till I cede the floor to my colleague: What's really alarming, I think, to many of us around the table is that we're talking about millions of dollars of taxpayers' hard-earned money, that, in some circumstances—whether it's a BPO worth $6.7 million, which was essentially sole-sourced; a $400,000 vendor chosen who was not the lowest cost compliance; and now a $583,000 sole-sourced contract without adequate documents. We found this all throughout the auditor's report. These three examples are expenditures close to 8 million taxpayer dollars, and we don't know if we're getting value for money. I think that that is very important, that we know you have now put in place the appropriate checks and balances so that the policy is consistent and applied and so that taxpayer dollars—I mean, just in these three examples alone, that's $8 million where we don't know, as legislators, and the public doesn't know, that should have been spent appropriately. So I just would like to know a little bit more about the checks and balances you've put in place so that we can protect taxpayer dollars in the future and then, Mr. Chair, I'll cede to Mr. Yakabuski.

Ms. Summers: The public expects and deserves a well-managed utility. Hydro One policy requires that we purchase goods to ensure the value for money. There were instances identified in the Auditor General's report where the documentation was not there. There were circumstances where, in accordance with policy, a request for proposal was required and it was not done, and we have addressed that. Specifically, again, I'll reiterate that the value of setting up a compliance organization is on an ongoing basis. Management knows that if there are any issues happening, we'll follow them up. The way the process and the policy will work is that if there are any further compliance issues, the associated vice-president in the line of business would be identified, and it would be expected to be dealt with. We've clearly communicated not only the specific policies where the issues were to the employees, but we also sent out a general communication where we need a culture of compliance. Everybody needs to comply with policies, regardless of position. We've clearly communicated our expectations, and we're going to follow that up going forward.

The Vice-Chair: Mr. Yakabuski?

Mr. Yakabuski: Picking up where we left off, Ms. Burak, you said that Mr. Parkinson resigned with the understanding that he would be getting his severance. Was this part of a negotiation; you sat down and discussed this and came up with the press release, if you want to call it that, that the CEO of Hydro One has resigned? At any time during those possible negotiations, which you're going to confirm for me or state that they did not take place, did Mr. Parkinson say—because you all agreed that the best thing for the corporation and himself was that he go—"Well, if I'm not going to get my package, then this is a whole new ballgame and we'll be dealing with this in another way"? Is that somewhat how it came down?

Ms. Burak: I'll repeat what I've said. First and foremost, the board agreed that his departure was in the best interests of the company, and we elected to honour the severance provisions that were in his contract, which enabled us to terminate his employment without notice and without cause for any reason whatsoever. The former CEO, in discussing the situation with us, elected to resign so that his presence would no longer be a distraction for the organization.

Mr. Yakabuski: Thank you, Ms. Burak. Now, I'm going to ask if you can keep those answers really short because, in the interests of time, we're trying to wrap this up, and I don't want all my time to be spent in getting the same answer I got previously, even if I am asking the same questions. However, in a different way, I'm—

The Vice-Chair: Let's have some consistency, Mr. Yakabuski.

Mr. Yakabuski: —phrasing it another way and hoping that somehow that might ferret out the answer. I'm going to ask you, and if you have to say, "I'm sorry, I can't answer that question," that's okay too. But (a) was this part of a negotiation; and (b) did the former CEO threaten or imply a threat at any time that if he wasn't getting his severance package, he wouldn't be going voluntarily?

Ms. Burak: To the latter part of your question, no. That situation did not occur.

Mr. Yakabuski: It did not happen. Thank you very much.

Now I'd like to shift gears a little bit and ask you: On what basis and how often do you, the board, the president and CEO or any or all of those communicate with the Office of the Premier or the Premier himself or the office of the Ministry of Energy or the minister himself?

Ms. Burak: I meet on roughly a monthly basis with the Minister of Energy.

Mr. Yakabuski: A monthly basis. Okay, thank you very much.

How much time?

The Vice-Chair: You have more time.

Mr. Yakabuski: I know I have more time. I want to know how much. We need to quantify it.

So during this circumstance, this air surrounding the auditor's report, did the members of the board of Hydro One have discussions with the Premier's office and/or the office of the Minister of Energy with regard to whether or not Mr. Parkinson should be allowed to continue in his role as CEO of Hydro One?

Ms. Burak: Let me say that throughout that very difficult week I certainly had conversations with our minister and provided information to the shareholder about the specifics surrounding the auditor's report.

Mr. Yakabuski: Was any direction given from either the Premier's or the minister's office as to how to handle the Parkinson situation?

Ms. Burak: I can tell you that it was the board that determined and agreed that the departure of the former president and CEO would be in the best interests of the company. Obviously, the board was aware of public reaction and of discussion in the Legislature, but the determination that the former president and CEO should depart was a decision taken by the board.

Mr. Yakabuski: Again, was any direction given by the Minister of Energy or his office or the Premier's office or himself?

Ms. Burak: Only the board can hire the CEO and fire the CEO, and the board agreed that it would be in the best interests of the company for the former CEO to depart.

Mr. Yakabuski: We understand the corporate set-up, that the board would have to be the entity to terminate and/or accept the resignation of Mr. Parkinson. I'll ask you again: In those conversations that you routinely have with the minister's and the Premier's offices, was either implied or clear advice or direction given as to how Mr. Parkinson's situation should be handled? Either implied or direct?

Ms. Burak: My recollection of the public statements of the minister and the Premier both to the press and within the Legislature were very clear about their reaction to the report. I really have nothing more to add to what was said at the time.

Mr. Yakabuski: Was Mr. Parkinson asked to resign?

Ms. Burak: I'll repeat what I've said.

Mr. Yakabuski: Oh, please; we're running out of time. Actually, I remember it almost word for word.

Ms. Burak: I do respect the job that you have to do, Mr. Yakabuski, but I'm being candid with you. This is an independent board, and the board agreed that his departure would be in the best interests of the company.

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Mr. Yakabuski: We talked about the fact that Mr. Parkinson's expenses—you have said that some of them were appropriate expenses but inappropriately handled from a policy point of view, which was that he was putting expenses that he was incurring on his executive assistant's credit card and thereby avoiding your approval on those, whether intentional or not. I'm not making that as an accusation. But by doing so, it avoided or did not make it possible for you to be reviewing those expenses and/or approving them, and on some of those, they were not only inappropriately accounted for; they were inappropriate expenses.

Because this was going on for some time, there was $45,000 or $50,000 in expenses. Were you aware of this practice at any time prior to the auditor's report, or did the first that you knew of it come subsequent to the release of the auditor's report?

Ms. Burak: The first time that I was made aware of this was as a result of the auditor's report, and I want to clarify what they did say. If you read the report, their whole reason in bringing it to our attention and subsequently disclosing the matter was that if there were expenditures relating to the CEO, they should have been put before me for approval. So, yes, that was the whole point. And I just want to repeat for the record that we have instituted changes in procedure that will ensure that this won't happen again. It should never have happened in the first place.

Mr. Yakabuski: My understanding is that the changes are that, as the acting CEO, Ms. Formusa's expenses and her executive assistant's expenses are now reviewed directly by yourself. Is that correct?

Ms. Burak: That's correct, and as well, the expenses for Ms. Formusa and myself are reviewed twice annually by staff in the finance department and a report is prepared for the audit and finance committee. Finally, at the end of the year, our external auditor will review the expenses for myself, the CEO, the CFO, the general counsel, one other direct-report, and now all of our administrative assistants, and a report prepared for the audit and finance committee by the external auditor.

Mr. Yakabuski: And one final question, if I could just wrap that up, because then we can avoid another rotation. Did Tom Parkinson resign?

Ms. Burak: The board agreed that his departure would be in the best interests of the company and elected to honour the severance provisions of his contract, which allow the company to terminate his employment without notice and without cause for any reason whatsoever, in which case he would be paid a severance. The former CEO, in discussion with the board, elected to resign so that his presence would no longer be a distraction for the organization.

The Vice-Chair: Thank you. I'm glad we got that answer so we can move on to the next questioner. Mr. Hampton.

Mr. Hampton: I want to be clear on this. What the auditor disclosed was that Mr. Parkinson was not following appropriate procedures in terms of his own expenses, and you agree that what was going on was totally inappropriate.

What I think I heard you say when I last had a chance to ask a question is that subsequent to Mr. Parkinson leaving, you did an analysis of the $50,000 amount and you then discovered, through the help of his assistant, that in fact there were expenses which never should have been there in the first place.

Ms. Burak: That's correct.

Mr. Hampton: They were in no way related to the corporation, corporate activities.

Ms. Burak: They were not business-related expenses.

Mr. Hampton: As a result of that, have you done any further reviews of Mr. Parkinson's expenses for previous years or previous activities within the corporation?

Ms. Burak: The ongoing practice has been that I reviewed his expenses on a monthly basis to ensure that they were appropriate business expenses, and I was always presented with legitimate business expenses. We are not going back into previous years. We're fixing the problem going forward, so that going forward even the assistants' expenses will be reviewed, not only by myself but by external auditors and by our finance department.

Mr. Hampton: In view of the fact that the auditor's report was not the first warning flag with respect to Mr. Parkinson, that there were other warning flags that were raised earlier in his career, why wouldn't you have a look at those earlier expenses as well?

Ms. Burak: I think I've just said that I've been the chair since 2003. I've reviewed his expenses on a monthly basis, and I was always presented with legitimate business expenses.

Mr. Hampton: Have you looked at his assistant's expenses for, say, 2003-04?

Ms. Burak: No. As I've indicated, what we have done is institute a procedure to ensure that, going forward, the administrative assistants' expenses will be reviewed both by the finance staff and by our external auditors.

Mr. Hampton: I want to ask some further questions about executive compensation, because it gets more interesting all the time. My understanding is that, for example, the chief executive officer of BC Hydro is paid about $405,000 a year. The chief executive officer of Hydro-Québec is paid in the range of $480,000 a year. Given that Hydro-Québec is in fact a much bigger and more complex organization than Hydro One and that BC Hydro is at least as complex—I would argue, more complex—than Hydro One, what was the justification in the first place for executive salaries at Hydro One to be four times what they were at BC Hydro and Hydro-Québec?

Ms. Burak: As I indicated earlier in the day, Mr. Hampton, when Hydro One was created, as you would know, it was anticipated that it would be privatized, so executive salaries were set at rates comparable to the private sector. While our board made certain changes to compensation in 2002, we continued to retain an essentially private sector company comparator basis for compensation, primarily on the basis of the catchment area, and where, for example, the chief regulatory officer, whom we lost to BC Hydro for more money—where we might have to obtain his replacement from.

I think what is important to bear in mind now is that the government has established the agency review panel, whose first order of business will be to look at compensation in all of the energy company entities, not just Hydro One. Very significantly, in reading the mandate, the panel is being asked to look at public sector organizations in providing advice to the government. We await that advice and look forward to working with the panel.

Mr. Hampton: Since you raised the issue of the panel, when is the panel to report?

Ms. Burak: To the deputy.

Mr. Wallace: The minister indicated that the panel will report in two phases. I believe he's talked about the spring and then later spring in terms of time.

Mr. Hampton: In terms of the actual order in council which creates the panel, when are they required to report?

Mr. Wallace: The order in council sets an end date for the panel members on or before December 31, 2007.

Mr. Hampton: So they have until December 31, 2007?

Mr. Wallace: That is the formal wind-up time of the panel, of the appointment of the panels. The minister, as you know, has publicly indicated his intention to receive advice and reports from the panel substantially in advance of that.

Mr. Hampton: But they're not required to report until December 31, 2007, according to the order in council.

Mr. Wallace: The order in council indicates that the panel will report to the Minister of Energy, including interim reports as required and as appropriate. It does not actually require a final report, as you will know, legally. What it indicates is that the panel appointments will terminate on or before December 31.

Mr. Hampton: I don't think I have any further questions.

The Vice-Chair: Thank you very much. Does anyone else have any further questions? If not, we want to thank everyone for being here today. I particularly want to thank the deputy minister for having sat through the whole term when his presence was, in a lot of cases, hardly noticed, but we do want to thank all of you: Madam Chair, Madam President, Madam Chief and the deputy minister. We thank you very much for being here and enlightening us on some of the issues at Hydro One. We will have further discussion as to a report and so forth, and I'm sure that you will be notified for your perusal.

Ms. Burak: Thank you, Mr. Chair.

Mr. Wallace: Thank you, Mr. Chair.

The committee continued in closed session at 1351.

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