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**Standing Committee on
Estimates**

Ministry of Energy

**Comité permanent des
budgets des dépenses**

Ministère de l'Énergie

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Tuesday 17 October 2017

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Mardi 17 octobre 2017

Chair: Cheri DiNovo
Clerk: Eric Rennie

Présidente : Cheri DiNovo
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LEGISLATIVE ASSEMBLY OF ONTARIO

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

STANDING COMMITTEE ON ESTIMATES

COMITÉ PERMANENT DES BUDGETS DES DÉPENSES

Tuesday 17 October 2017

Mardi 17 octobre 2017

The committee met at 0900 in room 151.

MINISTRY OF ENERGY

The Chair (Ms. Cheri DiNovo): Good morning, everyone. We are going to resume consideration of vote 2901 of the estimates of the Ministry of Energy. There is a total of five hours and 40 minutes remaining.

Before we resume consideration of the estimates, if there are any inquiries from the previous meeting that the minister has responses to, perhaps the information can be distributed by the Clerk. Are there any items, Minister?

Hon. Glenn Thibeault: We're still gathering comments.

The Chair (Ms. Cheri DiNovo): Okay, thank you.

When the committee last adjourned, the minister had 15 minutes remaining for his right of reply.

Hon. Glenn Thibeault: Good morning, everyone. Where I was in my closing remarks, in the rebuttal piece, I was talking a little bit about the investments that were made by this government and I was talking also in relation to the work that we were doing to invest in climate change. I think it's important for me to mention that this is work that we must do collectively as a province to reduce pollution and GHG emissions—because our electricity system is over 90% GHG-free, and we're going to continue to invest in and continue to work towards a transition towards a low-carbon economy.

With respect to reducing GHG emissions, I can confidently say that this ministry, the Ministry of Energy, is actively doing its part. For example, the Independent Electricity System Operator released their Ontario Planning Outlook last fall, and that's ahead of our long-term energy plan engagement sessions that I discussed earlier. The GHG emissions from Ontario's electricity sector fell by over 80% between 2005 and 2015. This significant reduction in GHG emissions is directly attributable to this government's leadership to eliminate coal-fired generation as well as a reduction for demand in electricity.

Significantly reducing the GHG emissions stemming from Ontario's electricity sector also moves us one step closer in meeting the province's GHG emission reduction targets—targets outlined in Ontario's climate change action plan.

As you all may be aware, the climate change action plan is a five-year plan aimed at helping Ontario fight climate change over the long term, and it also includes

recommended actions that will affect our province's future energy use. The targets identified are as follows: a 15% reduction in GHG emissions below 1990 levels by 2020; followed by a 37% reduction below 1990 levels by 2030; and then an 80% reduction by 2050.

The plan also outlines actions the government is taking and plans to take to reduce carbon emissions in the province—actions that in all likelihood will impact our province's future energy use. This will include helping homeowners and businesses purchase and install low-carbon energy technologies, such as geothermal heat pumps and air-source heat pumps; solar thermal and solar energy generation systems that reduce reliance on fossil fuels for space and water heating; and increasing the availability of use of low-carbon fuels such as propane, liquefied gas and gasoline mixed with renewable fuel contents such as ethanol.

With this in mind, Ontario plans to implement a new regulation that will lead to a 5% reduction in GHG pollution from gasoline by 2020—and, again, providing rebates to individuals who purchase or build their own near net-zero carbon emission homes with energy efficiency performance that sufficiently exceeds the requirements outlined in the building code.

I've listed only a few of the measures our government is pursuing to reduce our province's carbon footprint.

This past August, Ontario launched the Green Ontario Fund and GreenON website, a one-stop shop for programs and rebates to reduce energy costs and help fight climate change. I would like to acknowledge the Ministry of the Environment and Climate Change for their steadfast work in implementing climate change action plan initiatives, including establishing the Green Ontario Fund. I'd also like to thank the staff at the Independent Electricity System Operator, whose significant expertise, resources and delivery infrastructure helped support initial GreenON program development and, in the process, provided a coordinated one-window approach for customers, which is something I know customers and consumers have been asking for.

This brings me to the fifth commitment outlined in the Ministry of Energy's mandate letter, which I talked about earlier, which is driving efficiencies and maximizing return on investment from the electricity sector.

Ontario's electricity sector is continually evolving. In a very real way, the sector may now be at the point that telecommunication companies occupied in the 1980s,

whereby technological innovations combined with customer demands for better services and products drive a remarkable pace of change. To that end, our regulatory and public policy governance structures need to evolve as well to keep up with today's ever-changing marketplace. To do this, we need to become less prescriptive and allow for leaders at all segments of the value chain to enter Ontario's energy market without a heavy-handed regulatory market getting in the way. For the Ontario government's part, it will need to take a step back from picking specific technologies, winners and losers, and allow for a more dynamic, competitive and outcome-based approach.

To move things forward, the Independent Electricity System Operator is leading a market renewal initiative that will result in an ambitious set of initiatives aimed at fundamentally redesigning Ontario's electricity markets, and in the process ensure that our future energy needs are met in a reliable, flexible, clean and, most importantly, cost-effective manner.

Now I'd like to discuss the final mandate letter commitment that my ministry has made considerable progress in carrying out; namely, mitigating the impact of electricity prices on consumers and businesses. Topping the list of our government's efforts to address electricity prices is the Fair Hydro Plan Act, which officially passed in May.

Before providing an overview of this legislation, I'd like to discuss other previous measures that the Ministry of Energy implemented to reduce energy costs. These include a new historic agreement with our neighbour that will limit GHG emissions by making Quebec's energy supply available to Ontario through their operator, Hydro-Québec, and Ontario's Independent Electricity System Operator. Under this interprovincial agreement, our Independent Electricity System Operator will purchase two terawatt hours annually from Hydro-Québec over a seven-year period, from 2017 to 2023. There is enough electricity to power the city of Kitchener for a year in this deal.

On top of this, Ontario will leverage Quebec's highly innovative energy storage capabilities to make better use of our own clean energy resources. Ontario, in turn, will also reserve 500 megawatts of capacity for Hydro-Québec to meet Quebec's winter peak demands. The agreement will reduce electricity system costs for Ontario consumers by about \$70 million from previous forecasts. It will also reduce the electricity sector's GHG emissions by approximately one million tonnes per year.

This mutually beneficial agreement is a telling example of Ontario and Quebec's long-standing working relationship. Together, the two provinces form Canada's largest economic region and account for about 56% of the country's GDP and 53% of interprovincial trade.

The successful negotiation of the Green Energy Investment Agreement is another important measure our province took to reduce electricity costs.

Our cost-saving measures don't stop there. As a result of the annual price reviews, revised procurement totals and the introduction of competitive procurement for large

renewable projects, the feed-in tariff, micro feed-in tariff and the first Large Renewable Procurement program initiatives are expected to cost at least \$3 billion less than forecast in the 2013 long-term energy plan.

We also suspended the second Large Renewable Procurement program as well as the Energy-from-Waste Standard Offer program. These two measures alone provided up to \$3.8 billion in savings relative to the 2013 long-term energy plan's forecast.

Then there are the nuclear energy-related cost-saving measures to consider as well. Of particular importance, deferring the construction of two nuclear reactors at Darlington avoided an estimated \$15 billion in new construction costs. Instead, the government opted to focus on its existing nuclear fleet and has commenced with the refurbishment of Darlington. This large-scale project is often described as Canada's largest clean energy project. Managed by Ontario Power Generation, Darlington's refurbishment will not only boost economic activity across the province, but will create high-paying jobs in Ontario. It will also secure 3,500 megawatts of safe, affordable, reliable and emissions-free power.

0910

It is also worth mentioning that, to date, Darlington's refurbishment is progressing well and is on track to be completed on time and on budget.

However, despite the extensive list of cost-saving measures I have highlighted, electricity rates were continuing to rise. And the people of Ontario made one thing abundantly clear: They wanted substantial relief from electricity bills and they wanted this relief to last.

Members of this committee would know that our government took substantial action to provide immediate and lasting relief to help lower electricity bills, and this relief will also be fair and balanced. On May 31 of this year, legislation relating to Ontario's Fair Hydro Plan was passed. Thanks to this legislation and our earlier 8% rebate, electricity bills were lowered by 25%, on average for all residential consumers this past summer. As many as a half-million small businesses and farms are also benefiting from this initiative. Our plan holds any increases to bills to the rate of inflation for four years.

Ontario's Fair Hydro Plan is also helping vulnerable electricity consumers in a multitude of ways. First, we have enhanced distribution rate protection to provide delivery charge relief to a total of approximately 800,000 customers, up from 350,000 before the fair hydro plan was launched. This enhancement benefits consumers served by local distribution companies with some of the highest distribution rates, including Hydro One low- and medium-density consumers, Northern Ontario Wires, Lakeland Power, Chapleau Public Utilities Corp., Sioux Lookout Hydro, InnPower, Atikokan Hydro and Algoma Power.

Through the fair hydro plan, we also expanded the Ontario Electricity Support Program, or the OESP, as most of us know it, which lowers electricity costs for the most vulnerable through a rebate on their monthly bills. This means bill credits have been increased by 50% and

eligibility has been expanded. It's also worth mentioning that since its launch on January 1, 2016, the Ontario Electricity Support Program has accepted more than 232,000 low-income households to receive the monthly on-bill credits.

Also, our ministry is working with our colleagues at the Ministry of Community and Social Services to increase participation in this program for customers already enrolled in other provincial social assistance programs.

Another measure introduced through the fair hydro plan has provided on-reserve First Nations residential customers serviced by licensed distributors with 100% credit on the delivery line of their monthly electricity bills. The Ontario Energy Board estimates that this initiative will provide an average monthly benefit of more than \$1,000 per year for approximately 2,100 on-reserve First Nations residential customers. This announcement was lauded by First Nations leaders, including Ontario Regional Chief Isadore Day, who said that providing the delivery line credit would effectively reduce energy poverty in First Nations communities and allow for a path forward for greater quality of life in those same communities.

What's my time, Chair?

The Chair (Ms. Cheri DiNovo): Two minutes, Minister.

Hon. Glenn Thibeault: Thank you.

Ontario's Fair Hydro Plan is also working on establishing an affordability fund to provide energy efficiency measures to Ontarians who don't currently qualify for low-income conservation programs and are unable to make energy-efficient improvements without that support. The fund will operate through an independent trust established to administer the program, including providing oversight and facilitating the efficient distribution of funds to electricity distributors. Electricity distributors will be able to apply for funding to the program to offer energy efficiency measures to those customers that meet the targeted eligibility criteria.

Measures that could be funded include energy-saving light bulbs, LEDs, power bars, energy-efficient window air conditioning units, refrigerators, insulation, and air source heat pumps, for example. It is anticipated that electricity distributors will be able to start applying to the trust for that funding this fall.

Collectively, the proposed changes I have outlined in detail today represent the single largest reduction in electricity rates in Ontario's history. As all of us know at this table, our fair hydro plan will effectively change how the measures I have discussed would be funded. Previously, the cost of maintaining a clean, modern and reliable electricity system was disproportionately placed on the shoulders of today's electricity ratepayers, but under our plan, the electricity support programs I've outlined today would be funded by the provincial tax base. The fiscal costs of this relief and the corresponding restructuring that will take place—it will cost the province about \$2.5 billion over the next three years.

I want to thank everyone for the opportunity to speak to all of you this morning. I look forward to further questions from the committee.

The Chair (Ms. Cheri DiNovo): Thank you, Minister.

We now move to the official opposition. Mr. Walker.

Mr. Bill Walker: Can you tell me, in the last 14 years, how much the government has paid Quebec and the US to take our surplus power?

Hon. Glenn Thibeault: Deputy, would you have—

Mr. Bill Walker: If not, for the sake of time, I would just ask that you provide that information. I'll ask the Clerk to record that and ensure that we have that information.

Hon. Glenn Thibeault: I'm more than happy to talk about how that system works over the last little—

Mr. Bill Walker: No, I don't need you to do that, Minister. I want the answer to that question. I want to understand how much—because when you tell me that you've found a 25% reduction, I want to understand why you went to 25%. I want to understand that you knew exactly what the issue was and how much that has cost.

I want to ask you if you can tell us how much the hydro electricity rates have increased over the last 14 years—

Hon. Glenn Thibeault: I'm happy to give you an answer. There are a lot of questions in that.

Mr. Bill Walker: There are. That's the job of estimates—ask a lot of questions.

Hon. Glenn Thibeault: I'm happy to give you those answers.

When we're talking about the 25% reduction—we were looking at where rates were and what would be the benefit to people right across the province. The long-term energy plan, starting in 2010, shows where those costs were from that point of view.

Deputy, if you want to take over and answer that question in relation to 2010, we can give the member some of those answers.

The Chair (Ms. Cheri DiNovo): Can you introduce yourself, please, Deputy?

Mr. Serge Imbrogno: Hello. I'm Serge Imbrogno, Deputy Minister of Energy.

Just on your first question: The IESO publishes all the numbers on their website. They'll give you a history of imports from outside jurisdictions and exports, and then they'll calculate a differential. It's just the flow. So we can provide you with that information.

In terms of—

Mr. Bill Walker: A number that I have certainly heard is—we've paid \$6 billion. The day after you announced your Fair Hydro Act, you signed more green energy contracts. We have a surplus. I think you would all admit that we have a surplus of power. Why are we signing more? Why did we not cancel contracts earlier in the tenure that would have saved—without penalty, by the way—the taxpayers? They truly would have seen those bills go down.

You borrowed \$25 billion. We know that's going to cost us, at minimum, \$43 billion. So can you assure the taxpayers of Ontario that their rates and their hydro bills are not going up in two years or four years?

Hon. Glenn Thibeault: The fair hydro plan says that we're holding any increase to the cost of inflation for the next four years.

In relation to one of your comments about signing more contracts, the contracts that were signed were done back in November 2016, which everyone was aware of. Even the IESO had that in their planning outlook. So these aren't new contracts. These are things that are required to make sure that we can meet the needs of the province. Unlike in 2003, when we were spending \$700 million to import power from the US, we've spent \$70 billion rebuilding the system—because no one invested in the system; we did. That \$70 billion that we invested—we made sure that it was clean and it was reliable.

Deputy, if you have any other comments that you would like to add to that—I think it's important.

Mr. Serge Imbrogno: As the minister has said, over the years you'll see that flip in the imports versus the exports. In the early years, we were importing power—in 2003. Then, I think in 2005 and 2006 we started to export power as we started to build up our system.

It's very difficult to build a system that meets demand and supply exactly. You have a forecast of where you think demand is going to be, and you'll build your supply to meet that demand, but there are external variables like the weather, or there could be a downturn in the economy.

What we learned in the 2013 long-term energy plan was—we built in something called plan flexibility, where we look back at previous estimates of demand, whether it was the old Ontario Hydro or the IESO. If you look at demand—we always tended to over-forecast demand. So what we've said in the 2013 long-term energy plan is, going forward, let's not build the system until we know for sure the demand is going to be there. We had a term called “plan flexibility” where you'd price in what you think the supply is going to be, but you don't actually commit to that supply. I think we've learned from previous experience that the system takes time to adjust and you don't want to lock in supply today that may not be there.

0920

Mr. Bill Walker: What Ontarians are asking me, though—you have governed and 300,000 less manufacturing jobs, so you know your supply is going down. You continue to add—and you've used the term “weather”—so intermittent power sources, which means we have to have a backup another way.

We know that you don't capture all the water at Niagara Falls, which is the cleanest, greenest, freest form of power we have. You tell a nuclear plant not to produce, although you're contractually bound to do that. And yet you go out and sign more intermittent power contracts, knowing supply has gone down, and since

2005 we've had a surplus. We know you had contracts that you could have cancelled early in the tenure of the Green Energy Act with no penalty to the taxpayer of Ontario and should have had a forecast knowing where this was going. That's where the struggle is.

Then, when you come out and keep saying the 25% reduction with no mention that the rates have gone up in a very conservative manner, 300% to 400%, over the tenure of the Liberal government, that's where the people of Ontario are frustrated. That's where small businesses, medium businesses, large businesses, homeowners and seniors are saying, “Where is this coming from?” Now they see, and they've seen through—you've borrowed \$25 billion and yet we have hospitals, we have mental health institutions that don't have funding, but you found \$25 billion, which is going to cost \$43 billion at minimum—some are suggesting up to \$93 billion—and someone's going to pay that freight back.

I just struggle that there are going to be lower rates. Minister, respectfully, you're saying it's all good and it's going down. It's going down in a very short period of time, coincidental with an election, and then they're going to go back up and we are going to have higher rates. Small grocery stores—you say everyone's benefiting from this—I still get calls on a weekly basis from small grocery stores who have a big, huge power demand every day, 24/7, who have got no relief from your Fair Hydro Act.

This is where the people of Ontario are frustrated, and I'm trying to get answers to ensure that we can go back to them and let them know the true facts.

Mr. Serge Imbrogno: Maybe I can just give you a bit on the planning context. When we look at supply, we try and have a balanced system. We have a large portion of nuclear right now. We'll have natural gas and we'll have renewables. If you look over the next 20-year planning horizon, starting in 2022, 2023-24, when Pickering comes off-line, we'll have 3,000 megawatts of supply capacity that comes off-line. Over the next 20 years, we're going to have 18,000 megawatts, and that includes all the things we contracted for. There could be this capacity shortfall. We may have a surplus today, but over the next three, four to five years—

Mr. Bill Walker: No, we do have a surplus today.

Mr. Serge Imbrogno: That's part of the difficulty of planning for downturns and changes in demand.

Mr. Bill Walker: So if I can ask one question on that, then: If you put in absolutely the maximum of your Green Energy Act, your wind and your solar, what's the percentage of the grid? If everything was turning at its optimum, what amount of the grid is it actually going to take—5%?

Mr. Serge Imbrogno: So it's at full capacity? You're saying if—

Mr. Bill Walker: If every single thing you say you need is going to be there, what's the capacity on the full grid—5%?

Mr. Serge Imbrogno: I don't want to give you a number and then have to—

Mr. Bill Walker: And that's going to cost about \$133 billion, and it's intermittent power. So if it doesn't, what do you then do? If the wind doesn't shine, and you're saying there are weather issues—

Hon. Glenn Thibeault: The wind doesn't shine.

Mr. Bill Walker: Thank you. If the wind doesn't blow, the sun doesn't shine, what happens after that?

Mr. Serge Imbrogno: The system operators build the system and make sure it's reliable, so you'll have natural gas that's available; you'll have nuclear. That's the baseload, and you have the intermittent. So we build a system that complements each other, and you have imports that come in as well. The IESO plans to make sure that the system remains reliable as we add renewables to the mix.

Mr. Bill Walker: So you're taking off hydro, which again is core baseload, first. You're taking off nuclear, which is core baseload and lower cost, by the way, than either of the two green energy sources. With the knowledge that it's intermittent and you can't control the sun or the wind—my concern that I've said all along with this is, again I think the numbers that we've seen are 5% if everything's there and we know that it's never at maximum, so you're basing all of this on a very small sliver of the energy grid and yet we're allowing and paying through-the-nose rates because of this.

Let's switch gears a little bit. Hydro One and Avista: Did you know before you signed the contract or Hydro One signed the contract that there was coal going to be generated in this partnership? You talk a lot about getting coal off the grid and taking coal out of Ontario. Did you consciously know or did you not know that there was coal involved in that deal? Just a yes or no.

Hon. Glenn Thibeault: When Hydro One approached us about the deal, they were comparing how this company is very similar to their values; that Avista was the very first North American company to start looking at biomass. They understood that the values between Hydro One and Avista matched in terms of where they see the future of energy going. But—

Mr. Bill Walker: Minister, with all due respect, this isn't question period.

Hon. Glenn Thibeault: I'm getting right to your point.

But when it comes to coal—

Mr. Bill Walker: Just a yes or no: Were you aware that there was coal—

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

Mr. Walker, let the minister answer.

Hon. Glenn Thibeault: Thank you, Chair.

When it comes to coal, this company, back in 2000, had 23% of its power generated by coal; this year, it's down to 9%. Just because Ontario—

Mr. Bill Walker: So you knew there was coal when you bought the company.

Hon. Glenn Thibeault: So when Hydro One—

Mr. Bill Walker: You knew there was coal when you bought the company. Just a yes or no, Minister, please.

The Chair (Ms. Cheri DiNovo): If you could let the minister finish.

Continue.

Mr. Bill Walker: Well, I've asked him for a one-word answer.

Interjections.

The Chair (Ms. Cheri DiNovo): Order, everyone.

Minister, the floor is yours.

Hon. Glenn Thibeault: One-word answers don't explain a billion-dollar complex negotiation, but that's probably one of the reasons why you don't understand it.

As I was explaining—

Mr. Bill Walker: Condescension doesn't really work.

Hon. Glenn Thibeault: As I was explaining, the whole process that Hydro One went through was making sure that they were buying a company that had similar values; that had similar values to what we are doing in Ontario.

Because of the fact that we are the only jurisdiction in North America that has eliminated coal, there is no other opportunity for any other purchase of any company that hasn't eliminated coal as of yet. We are the tip of the spear. We are the leaders in this. Rather than seeing that as something negative, we should be seeing this as something positive, because we are leaders. We've eliminated coal. We've actually taken seven million cars off—

Mr. Bill Walker: So I'll take that as a yes.

Hon. Glenn Thibeault: You can take it for whatever you want, sir, but at the end of the day, this is the decision that Hydro One made.

Mr. Bill Walker: May I ask you another question?

Hon. Glenn Thibeault: Of course.

Mr. Bill Walker: I believe the CEO suggested that there was potential that we would be paying money—“On July 20, reacting to the deal in the Spokane Spokesman-Review, Avista CEO Scott Morris said, ‘We can spread out our costs over a larger customer base,’ talking about adding Hydro One's customers to existing Avista customers. What risk does the deal pose to Ontario taxpayers that Mr. Morris is hoping will lessen the cost to Avista ratepayers in the United States?”

Is there any chance that we're going to be actually subsidizing taxpayers in the United States again in addition to the surplus that we pay them to take our power?

Hon. Glenn Thibeault: Absolutely not. There is no—

Mr. Bill Walker: Absolutely not? Unequivocally not a cent will go?

Hon. Glenn Thibeault: They're two rate-regulated entities. Right? They're two rate-regulated entities. With Ontario being managed by the Ontario Energy Board and with Avista having, I believe, five regulators out there that they're all accountable for, the two are both separate.

Mr. Bill Walker: Were you made aware before or after the board of directors was made aware that Hydro One was contemplating acquisition of Avista? When in that time frame did you know about it?

Hon. Glenn Thibeault: It's hard to say the exact notice between myself and the board. I had the board chair and some members of the executive talking to me

and the ministry about the possible merger-acquisition deal that they were looking at with Avista. The summer's all kind of mush to me, but I think it would have been in July at some point.

Chair, I'm going to hand that to the deputy.

Mr. Serge Imbrogno: From my perspective, it would have come in later in the process. The Hydro One board would have looked at it and then part of that governance agreement would be to inform the ministry after that. So it would have been more of a Hydro One board discussion and then providing that information to the shareholder.

Mr. Bill Walker: So we're made aware that on April 12 the board of directors was made aware prior to that date that they were looking seriously into negotiations with Avista. Did you at that time, Minister, whenever that date that you were made aware—I don't necessarily need the date right now—did you ask your staff to do background work on the company they were looking at, and will you make that information available to us?

0930

Hon. Glenn Thibeault: The date that you're talking about—the first I was informed of it, I believe, was in July.

Mr. Bill Walker: So in July you were made aware? What background did you have your staff do to look into this to understand—that you were up to speed on this deal?

Hon. Glenn Thibeault: The conversations that I had with Hydro One within the boardroom were the conversations that I was getting the information from on the deal, and then I had further conversations with the CEO.

Mr. Bill Walker: So your staff would then go back and do research and put a business plan in front of you to ensure you felt that this was the right direction we were moving in?

Hon. Glenn Thibeault: This was a Hydro One decision, so there was no business plan presented to me.

Mr. Bill Walker: So you didn't know whether this was a good deal for the taxpayers or Ontario or not.

Hon. Glenn Thibeault: This was a Hydro One decision, again, and we're looking at it from a shareholder's perspective. As I said to you earlier, one of the questions that I asked was, what would be, if any, the impact to Ontario ratepayers? They said there would be none because they are two separate entities.

Deputy, anything to add to that?

Mr. Serge Imbrogno: If I could just add: When we looked at what to do with Hydro One to create the corporation, there was always the intent that Hydro One would look outside the province as the potential to be a larger company. So I think the fact that Hydro One looked at potential acquisitions or mergers in itself wasn't a surprise.

We weren't aware of any of the particulars that they were looking at, but we understood that that would be part of the new mandate for Hydro One—that they want to build a larger company, have an Ontario base presence

and maintain that presence in Ontario. The specifics of that deal: The Hydro One board would be responsible for that, ensuring that it's in the best interests of all shareholders. Then with the governance agreement, once the board made that decision, they would report in to the shareholder.

Mr. Bill Walker: The struggle we're having is, again, with a crown corporation, there is going to be a reality to the taxpayer of Ontario. So it's interesting that you say that you didn't have a business case and you didn't need a business case. At the end of the day, the taxpayer of Ontario is floating all of this. They're paying the freight. Once you privatize it, despite 85% of Ontarians telling you they didn't think that was the best direction to go in, they're still going to be on the hook. Now you've added another \$25 billion in debt that the Ontario taxpayer is going to be on—and what I'm hearing today, Minister, is that you're not really sure whether this is a good thing or bad thing. You're just: "That's Ontario Hydro, I don't have to be"—you're the Minister of Energy. Everybody is looking at you for leadership and guidance, ensuring you truly have a plan in place, long-term, to bring the rates down, not some short-term gimmicky thing for an election ploy. They want to ensure that those rates are going to come down and stay down so that they can actually afford to stay in their homes. That's not what I'm hearing from the people of Ontario right now.

Hon. Glenn Thibeault: As I've said—you probably aren't aware, so I'll remind you that we have our fair hydro plan, which is reducing rates for every household in this province by 25%. It's a 25% reduction that everyone is seeing on their bills. There are 500,000 small businesses and farms that are also seeing that reduction. We also made changes to the ICI program, which is helping our large industry, and we're continuing to enhance the saveONenergy programs to continue to help our class B consumers.

When it comes to the pieces that you were talking about in relation to the debt and Ontario taxpayers—Deputy, I know you have some comments on that because, again, that's inaccurate.

The Chair (Ms. Cheri DiNovo): Mr. Walker, you have two minutes.

Mr. Bill Walker: Thank you.

Mr. Serge Imbrogno: Just to clarify, on the debt: Hydro One would borrow on its own. It doesn't require borrowing from the province or any type of guarantee. The acquisition of Avista would have been done through borrowing and the public market issuing equity as well. So it's not a direct—

Mr. Bill Walker: Can I ask you for a clarification, then? If you had borrowed it as the province of Ontario as opposed to as Hydro One, would it have been less money to borrow?

Mr. Serge Imbrogno: Well, that's a different question. Hydro One, even when we owned it 100%, always borrowed in capital markets. It's important that we keep the rate base separate from the tax base. I think we'll get into some of that discussion with the fair hydro plan,

where we're financing it through the rate base as opposed to the tax base. I think it's consistent that Hydro One would borrow like anyone else borrows—Toronto Hydro, everyone—from the rate base and not have it subsidized by the tax base.

Mr. Bill Walker: Thank you.

Minister, one last question, and this one is on the fair hydro plan ads: Would you agree that the Auditor General should have a say, like she used to before you took it away from her, to be able to say, "This is a credible ad that's going to benefit all Ontarians," as opposed to something that is, perhaps, a partisan-deemed ad, with regard to whose party is in power, and would you actually stand up today and say that the Auditor General should have that free-flowing, clear, third-party ability to say yes or no?

Hon. Glenn Thibeault: We're the only jurisdiction in Canada that actually has legislation that makes sure that all government ads are non-partisan. That's something that we should be proud of as a province. Making sure that we inform all Ontarians through advertising of many of our other programs, whether you're talking about the It's Never Okay campaign to other ad campaigns related to climate change—the fair hydro plan pointed everyone to the website, where it talked about all of the programs that were there. It was important that we get that message out. As I said earlier in my opening statement, the Ontario Electricity Support Program—for example, we know that there's approximately 500—

The Chair (Ms. Cheri DiNovo): I'm afraid that is the end of that segment. Thank you, Mr. Walker, and thank you, Minister.

We move to the third party now. Mr. Tabuns.

Mr. Peter Tabuns: Good morning, Minister and Deputy.

Hon. Glenn Thibeault: Good morning.

Mr. Serge Imbrogno: Good morning.

Mr. Peter Tabuns: Good morning, assembled staff.

I'll just start off with a question about the government's image of itself. I've heard the Premier often talk about your government as being the most open and transparent that there is. I think you would probably say the same; is that true?

Hon. Glenn Thibeault: We aspire to continue to be.

Mr. Peter Tabuns: Okay. In 2013, the government announced they would have independent overseers to make sure that they would be able to track what was going on with the refurbishment at Darlington. In fact, there would be one for OPG and one for the ministry. I actually had an opportunity to question one of your predecessors—I think you may have been there at the time, Deputy. In 2013, Minister Bentley, talking about the hiring of an overseer, an auditor, by the ministry, said, "That way"—having an auditor—"the minister, the ministry and the government will have timely information about issues that might slow down the project or increase the cost of the project so the government can bring expertise together and make sure it stays on track." So, in that, he was talking about ensuring that there was

an outside audit of what was going on so the minister would have a body, independent of OPG, to track what was going on.

In the course of preparing for these hearings, I have reached out to a number of non-governmental organizations in the environmental field to see what comments or concerns they have with regard to your performance. One thing I was taken aback by was this: Greenpeace put in an FOI for the ministry's report on the Darlington refurbishment back in 2013. At the time, the government refused to release copies that were even redacted. There was a big fight on this. That matter went to adjudication and, four years later, there was an order established by the Information and Privacy Commissioner that in fact those reports were not exempted at all under the act. The fact that you've been withholding them, saying that they were privileged, didn't hold up. The Information and Privacy Commissioner wrote—and I'll read it out so it's in the record:

"The appellant seeks access to all reports prepared by an independent oversight adviser to the ministry in 2013 relating to the progress of the Darlington nuclear generation station refurbishment project. The ministry located nine responsive records and denied the appellant access to them, in full. The ministry claimed that the records are exempt from disclosure under sections 17(1) (third-party commercial information) and 18(1) (economic and other interests) of the act. The adjudicator finds that the records are not exempt under sections 17(1) and 18(1) and orders the ministry to disclose them to the appellant in their entirety."

I go back just to note that there was a lot of resistance to putting out these reports, apparently found by the Information and Privacy Commissioner to not be legitimate objections.

As you're well aware, just recently, on October 11, Global News reported on a number of problems at Darlington. They had uncovered reports on a project that was going to cost half a billion dollars, four times the initial estimates, and I'll just note a few things about what they reported:

"A Global News investigation has uncovered documents that allege Ontario Power Generation—a provincially owned company—told contractors to ignore potential risks and enter artificially low cost estimates for work at the massive \$12.8-billion Darlington nuclear refurbishment project.

"The documents include a May 2014 report prepared by auditors Burns and McDonnell-Modus"—in other words, the reports that NGOs are trying to get a hold of so they can track what's going on.

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"According to the report, contractors were told to remove potential risks from their bids despite OPG knowing some of these risks would likely occur. This was particularly true for the heavy water storage facility, auditors say.

"According to the May 2014 report, OPG told contractor Black & McDonald to remove any costs for

unforeseen soil conditions from its bid for the facility. This was despite OPG believing there was a ‘high likelihood’ contaminated soil would be found at the site, the report says. (Contaminated soil was eventually found and is one of the reasons OPG gives for the project’s current cost overruns.)”

Are you holding back those reports from the auditor because there are many other projects or problems like this that have not been made public?

Hon. Glenn Thibeault: In relation to the 2013 piece, I’ll hand that to the deputy, because I wasn’t around at that time and I’m not quite aware of all of that information. But I’m happy to speak in relation to the heavy-water reports. I know we also have someone from OPG here, whom I’ll call up to speak to that afterwards.

We are talking about one of 500 subprojects that are happening right now at Darlington. I am constantly updated by the CEO, Jeff Lyash from OPG, as to the current status of the Darlington refurbishment, which is on time and on budget. With the heavy-water piece, there are contingencies built in place to make sure that we’ll continue to see this project be on time and on budget.

Mr. Peter Tabuns: That is an interesting response, Minister, because I didn’t actually ask further about the heavy water. I asked: Are there other overruns and problems, as was encountered with the heavy water, showing up in other aspects of the project?

You referred to talking to Jeff Lyash. That’s not a bad plan. I think it’s a good idea to talk to him. But you have an auditor out there doing an assessment on an ongoing basis. I’m assuming you’re reading those reports, as well as talking to OPG.

Hon. Glenn Thibeault: Milt and I will meet every so often. He and OPG and the board continue to work together daily. Again, everything that we’re being told, all of the information that we’re provided with, is that everything is on time and on budget.

Is there anything you’d like to add to that, Deputy?

Mr. Serge Imbrogno: I—

Mr. Peter Tabuns: Before we go to the deputy, I need to go back to the minister.

Have the auditor’s reports shown any other problems comparable to the ones that were cited by Global News? Are there other instances of contractors being told to give low prices? Are there other instances where OPG is wilfully ignoring risky conditions?

Are you seeing those auditor reports? Remember, your predecessor set that up so that they would have an independent assessment, aside from OPG. You need to have a good working relationship with OPG, but one of your predecessors wisely said, “I want someone independent, who has no interest in a career at OPG, telling me what’s going on.” I’m assuming you’re reading those auditor’s reports. Are they indicating other problems along the lines that were found by Global?

Hon. Glenn Thibeault: Milt is talking with and works with OPG on a daily basis. He’s there—he has an office on-site—and, again, is in agreement that everything is on time and on budget.

With that, I’ll hand it to the deputy for further details.

Mr. Serge Imbrogno: Mr. Tabuns, because you started with 2013, maybe I’ll just give a bit of detail on that and the information request.

During the planning scope of the Darlington refurbishment, we had a consultant embedded in OPG. Mike White was the consultant, and he provided reports. There were two types of reports. One was very detailed monthly reports, and one was summary quarterly reports. Those quarterly reports were made public as part of an OEB process.

I think what you’re asking about is the additional request for the monthly reports, which contained more sensitive information. Because you’re negotiating with third-party contractors, you don’t necessarily want all that information out in the public domain, so that’s the reason for that.

But subsequent to that, as the Darlington refurbishment—

Mr. Peter Tabuns: Excuse me—

Mr. Serge Imbrogno: —moved into the execution phase—

Mr. Peter Tabuns: Deputy, I need to stop you, just for a second.

Mr. Serge Imbrogno: —we have a new third-party consultant, and that’s Milt Caplan.

Mr. Peter Tabuns: Yes, but the IPC ruled that your reasons for not releasing the reports were not valid. The Information and Privacy Commissioner of this province said that your arguments were not valid. Do you accept the Information and Privacy Commissioner’s jurisdiction to rule on this and are you going to act in—what can I say—in the form that the IPC has suggested you act in, or are you going to ignore the information and Privacy Commissioner?

Mr. Serge Imbrogno: I’d have to refresh where we are in that process.

Mr. Peter Tabuns: Do you accept the IPC has the ability to say something should be released or not?

Mr. Serge Imbrogno: Absolutely, absolutely. I’m just not sure where we are in that process.

Mr. Peter Tabuns: I’m glad you accept that.

Mr. Serge Imbrogno: The minister has encouraged OPG to be very public and to provide updates. If you look at their Q2 2017 update, which is publicly available, they do already flag that. If I could read it to you, it’s not a long paragraph. It gives an update on where the projects are in its “Projects at a Glance.” It has a heavy waste water management building in progress, and it says, “This new facility will provide sufficient heavy water storage capacity and services for the tritium removal facility and station operations. The project remains over budget and behind schedule, and was paused in the spring. A plan has since been prepared to optimize cost and schedule. Construction will resume later this year without any impact on the unit 2 refurbishment project.”

So OPG has made all of the information public. If they’re behind on a particular project, they make that information available in their update, every six months,

just as they did with the heavy water management building.

Mr. Peter Tabuns: I'm going to back, though, because, Minister, you've said that the project is on time and within budget, but one of the things that this earlier auditor found was that "OPG told contractor Black and McDonald to remove any costs for unforeseen soil conditions from its bid for the facility."

To your knowledge, Minister, have there been any other actions of this kind, directing contractors to play with the numbers that were reported by Global? Have you seen anything else like that in your work? Because they may be coming in on time, they may be coming in within budget. But there could still be actions of this sort that are not acceptable to the people of Ontario. Can you assure us that that's not the case?

Hon. Glenn Thibeault: The best person to explain all of that is the individual from OPG, so if he could come on up and answer that—

Mr. Peter Tabuns: I may want them, but you're the minister.

Hon. Glenn Thibeault: Yes.

Mr. Peter Tabuns: You call the shots.

Hon. Glenn Thibeault: Yes.

Mr. Peter Tabuns: Are you satisfied that none of this bad practice is going on today?

Hon. Glenn Thibeault: Yes, and I'll hand it over to Ken to explain.

Mr. Peter Tabuns: Just one second, sir. Going back, then—in 2017, there is, again, a request for these audit reports from the ministry and, again, it's been denied, notwithstanding the ruling of the Information and Privacy Commissioner. Why are you continuing to deny access to these reports? Why do you think you can ignore the Information and Privacy Commissioner?

Hon. Glenn Thibeault: The first thing is the adviser keeps me apprised of the progress and ongoing developments at the Darlington refurbishment project and, as I said before, this was to get those regular updates on progress. The progress that is being made is, as I've said, on time and on budget.

You had questions in relation to how that was flowing, and the best person to answer that would be Ken from OPG, so that's why I'm handing it over to him.

Mr. Peter Tabuns: And I'm very happy to ask him questions, but you, Minister, can say yea or nay to releasing those reports, and currently your ministry, contrary to the direction of the Information and Privacy Commissioner, is saying no. So why are you ignoring—

Hon. Glenn Thibeault: All of my reports from Milt have been verbal, in meetings.

Mr. Peter Tabuns: You aren't getting written reports? Are you telling me that?

Hon. Glenn Thibeault: I'm getting verbal updates on a regular basis. Those reports could be coming in—but I'll hand that to the deputy.

Mr. Serge Imbrogno: Maybe I could just—there are two reports, like the initial Mike White reports, I think that's a different process.

I'm not aware of any freedom-of-information asks for what's happening right now, but just to give you a sense of how the oversight is happening, the ministry or the government looks to OPG to make sure this project comes on time, on budget. The board is responsible and OPG management is responsible.

The OPG board has set up its own due diligence process and they have their own oversight advisers that report directly to the board. Management has also set up an oversight adviser group to keep on track and ensure that they're satisfied. And then we have our person, Milt Caplan, who is on-site and who has access to all the board oversight and management oversight. Then, Milt will provide the minister with a verbal update and will provide the ministry with a written report. Those are updated quarterly or as we need them. I think that the value-add of Milt is that he's there and has access to all of the oversight that's going on with the OPG board and with OPG management. He doesn't try to duplicate that, but he has access to everything and provides us with a report—

Mr. Peter Tabuns: You may be missing my point, Deputy Minister. A request has been made for those written reports which are—

Mr. Serge Imbrogno: I just haven't seen that myself, so maybe it's working its way through the system.

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Mr. Peter Tabuns: Well, the matter is before adjudication again, notwithstanding the fact that the IPC ruled in the past. Once again, you're withholding reports. You're claiming openness and transparency, you're proud of the openness and transparency, but you're ignoring the Information and Privacy Commissioner, and you're fighting against releasing the reports.

Looking at what happened and what Global reported makes me incredibly suspicious about what's actually going on. If people have to fight so hard for reports that the IPC has already said—

Interjection.

Mr. Peter Tabuns: This is more about the reports than the technical matters—

Hon. Glenn Thibeault: If you're concerned about what's happening, we've got someone who can explain it all and alleviate those worries.

Mr. Ken Hartwick: I would like to make one point, if I could.

The Chair (Ms. Cheri DiNovo): Could you please introduce yourself? Thank you.

Mr. Ken Hartwick: I'm Ken Hartwick. I'm the CFO at OPG.

Just picking up on what the deputy read: We're an OSC filer. We have all the reporting requirements of a public company, and the requirement to report all material information on a quarterly basis, because of credit rating agencies and our own requirements. The paragraph that the deputy read out is us reporting on that project. We are highly confident that we have that project on time and on budget. We have the one issue, but it is not unexpected on a large mega-project like this to have

items that you need to deal with. But we have fully disclosed the status of that project, and we'll always do so because it's a requirement under the OSC. So for us, there's no other alternative but to have fulsome disclosure, as we've done.

Mr. Peter Tabuns: Thank you. I'll go back to the minister.

I've been told by OPG that they have to report to the OSC so everything should be out in the open. Why is it that you are still fighting against release of your own audit reports when an NGO requests it? Why is that you're in adjudication once again? Why are you denying public access to these reports when the Information and Privacy Commissioner has said that you don't have a leg to stand on to hold them back?

I've just been told that things are made public. So why are you not making the reports to you public?

Mr. Serge Imbrogno: Just to be clear, these are the Mike White reports. The quarterly reports are already in the public domain. The monthly reports that have much more detailed information—we're going through this process. I just have to find out where we are in the process. If there are issues, we need to protect commercial confidentiality. If those have been ruled on by the IPC, then we'll move forward.

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

Mr. Peter Tabuns: Thank you.

Mr. Serge Imbrogno: But all that information, the quarterly reports, is already in the public domain.

Mr. Peter Tabuns: I'm going to ask for an undertaking that you release these reports that the IPC has said you can and should release. Release them to this committee so we can judge for ourselves that someone outside the process who is informing you is telling you that the kind of problems uncovered by Global are no longer going on. I don't see any reason why you should withhold them, particularly given that the Information and Privacy Commissioner has already said, "Release them. You don't have a leg to stand on."

Deputy Minister, you have said that you report to the OSC. You shouldn't have any problem at all. What's the holdup?

Mr. Serge Imbrogno: We can report back on where we are in that process. I just can't say that I'm going to release them to the committee. But I can report back with the minister on where we are in that process.

Mr. Peter Tabuns: So you're not going to give an undertaking to make those reports available?

Mr. Serge Imbrogno: I'll give an undertaking to report back on where we are in that process. For all I know, they may have already been released. We can report back to you on where they are—

Mr. Peter Tabuns: Not as of last week. If you'll report this afternoon, I would appreciate that. But I'd appreciate even more an undertaking to make those reports public—from 2013 to today—so that the public can actually see for themselves that a body outside OPG is looking at this and is reporting to you fully, accurately,

in detail, on what's going on at the site. You may be under budget and you may be on time, but you may still have malfeasance going on or people engaged in activities that would not be acceptable to the people of Ontario and, frankly, Minister, I would think, not acceptable to you.

Hon. Glenn Thibeault: And that's why we continue to work with Milt and with OPG—because we trust Ken and Jeff and the work that's being done by OPG and all of the contractors in place.

As to when they were concerned about the heavy-water storage facility, that was immediately brought to my attention. Milt was involved in that, if I recall that correctly. The solutions on how they were going to resolve it were immediately talked about—firing the contractors and making sure that we find other ways to use the contingency that is in place with the overall Darlington refurbishment. At the end of the meeting, what I always want to hear is "on time and on budget," and that's what I hear every time: on time and on budget. And I trust the fact—

The Chair (Ms. Cheri DiNovo): Thank you, Minister. I'm afraid this segment is over.

Now we move to the government side. Ms. Kiwala.

Ms. Sophie Kiwala: Thank you to the minister and to your team for being here today. I've got quite a number of things that I would like to ask you, but I think, first of all, I'd like to mention just a couple of personal things.

I do believe that it's important to celebrate positive moments in energy, and we've had quite a number of them. You mentioned greenhouse gas reduction. That's one particular subject area that's close to my heart. I have a brother with COPD, and we have no more smog days. So that's remembered every single day in our family. I also want to mention the incredible opportunity that I had to be present in Thunder Bay when we announced that Pikangikum was being connected to the provincial energy grid. These are differences that will make monumental changes in the lives of many, many people in the north. It's very much appreciated.

In addition to that, one last point that I want to make before bringing forward quite a number of questions to you: I had the opportunity early in my mandate to celebrate the savings of energy through the general health sciences complex in Kingston. Two years ago they saved, with the saveONenergy program, through the retrofits that they were able to make, over \$600,000 a year. Those savings are still going on, and those savings are going on all across this province. I just wanted to express my gratitude to you and the ministry for your work.

Outside of that, when we were last here, the deputy minister was providing some insight into the \$4-billion interest cost estimate from the Financial Accountability Officer's report on Ontario's Fair Hydro Plan. I'm hoping that the deputy minister would be able to answer what he was attempting to provide last Wednesday and also explain why the OPG is best qualified to manage the debt obligations.

Hon. Glenn Thibeault: Thanks for highlighting some of those important points.

Being coal-free in this province and not having smog days—it's like taking, and I use the number all the time, seven million cars off the road—truly is leadership in North America. It's something many, many people are benefiting from. I had a 10-year-old boy—I think some of us met him last year when he came in May—come to say thank you because he hasn't had to go to the hospital in a year and a half, where prior to that he was going to the hospital almost on a weekly basis because of his asthma and the smog in the air. The changes that are being made to the quality of life for individuals like this one young boy and thousands and thousands of other people across the province are exactly why I think we all get into politics: to do the right thing and to get off of coal and make our air cleaner and our quality of life better for everyone.

In relation to those questions, I know you're asking the deputy, so I'll hand that off, but thank you for your opening points.

Ms. Sophie Kiwala: Thank you.

Mr. Serge Imbrogno: Thank you for the opportunity to respond. I just wanted to point out that the \$4-billion figure that was provided was an estimate of the FAO. That was not a Ministry of Energy calculation or number. The calculation of the \$4 billion was done when there was an initial peak debt estimate that was provided to the FAO at the time.

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Subsequent analysis conducted by the Ministry of Energy found that the debt levels are now expected to be substantially lower for the cost of the fair hydro plan. The initial estimates of peak debt decreased March 1, 2017, and August 31, 2017, by approximately \$8 billion. We thought the total cost of the debt required would be \$28 billion. We now think the peak debt is going to be under \$20 billion.

Those are updates on the total. I would think that if the FAO had revised that estimate based on \$20 billion versus \$28 billion, that \$4 billion would be substantially less. That's not our number, so I guess that would be a potential for the FAO to recalculate that number. But in doing that, we've always pointed out that going forward, there is going to be a lot of variability in the number as interest rates change, as they go up or down.

There are a lot of conditions over the 30-year life of the program that make it difficult for anyone to do an estimate of what the interest costs are going to be. I think that in the FAO report itself, the FAO acknowledges that the assumptions will change over time and it's very difficult to come up with one number.

I think the other important thing is what the framing or the policy rationale is for the appropriateness of that number. The calculation that the FAO did was a very mechanical one where he looked at what the borrowing costs are of the Ontario Financing Authority and what the borrowing costs are of OPG. He looked at the differential and applied it to the total debt number.

We think it misses a very important point, something we talked about earlier in the discussion: What is the

policy intent of the Ontario fair hydro plan? On the GA refinancing, the policy intent is that ratepayers today are paying too much, and we want to smooth that cost over the rate base over a longer period of time. The government has always been clear that this is a ratepayer finance program, a ratepayer cost program, so everything that is being done on GA refinancing is done through the rate base.

When you're financing through the rate base, it's appropriate to use whatever the financing cost is within the rate base and not intermingle it with the tax base. When you make that policy decision, the next thing you say is, "Within the rate base, how can we minimize the cost of financing?" That's why we looked to OPG as the entity to do the financing—because we believe OPG, within the rate base, has the lowest cost of financing.

We're fortunate to have Ken here from OPG. I think Ken can talk a little bit about what OPG is doing to minimize the cost of financing within the rate base, and how OPG is leveraging its systems and its expertise to do that. So I'll ask Ken Hartwick to come up and talk a bit about what OPG is doing.

Mr. Ken Hartwick: Good morning. Just to pick up on that, I think that, from an OPG perspective, we have three key attributes that position us to be the financing entity for the fair hydro plan. As the deputy mentioned, one is certainly a good understanding of the market itself—how the IESO operates, how you settle with a generator. We're in the market anyway as a generator, which I think is an important aspect of it.

The second one is, we are rate-regulated, so we understand regulation. We understand the importance of ensuring that costs that apply to a ratepayer are honoured and are kept separate from other activities so that the cost is relevant to the ratepayer.

Third, I think we've done a series of significant financial transactions over the years, as an entity—the financing for some of our clean hydro facilities, the financing for Darlington, and other financial transactions—so we have a good understanding of what the market will require and what credit rating agencies will require in order to be effective.

If you put all of that together, we think that we can then play a role in being a financial services manager for the trust itself and ensuring that, ultimately, the interest costs, borrowing costs are as low as possible and appropriate for the ratepayer—which is, again, the key attribute that we look to as ensuring that everything that we undertake to do on behalf of the trust and fair hydro plan legislation matches in with what the intent was for this element that is ratepayer-driven. We think we go across the spectrum of both the skills and the requirements for the activity itself and have a very clear mandate to ensure that ratepayers are appropriately treated in the process.

Ms. Sophie Kiwala: Thank you very much for your response. I appreciate that.

I'm wondering if you can add some more details and specifics about this borrowing mechanism. It sounds like

the way that the province would actually borrow money. Can you explain a little bit about the difference between the province borrowing program and the fair hydro trust borrowing program?

Mr. Ken Hartwick: Sure, and I think my colleague maybe from a couple of weeks ago began to touch on this—

Ms. Sophie Kiwala: Yes.

Mr. Ken Hartwick: —but the intention of what we think is best for minimizing the interest costs and for the benefit for the ratepayers is to establish what we'd call a securitization program. If you look at the province itself, when you borrow for the province, they borrow in various terms across different debt-related products to finance the needs of the province.

In this particular instance, we think it is more advantageous to develop securitization, which is sort of like a mortgage program of sorts, that will both borrow the money on an annual basis—so it's important to note that we don't go out and borrow the \$20 billion on day one. We borrow it annually as required to meet the obligations of the program. Then, similarly as we get to the point where ratepayers begin to pay this back, we will smooth it back to ratepayers over an extended period of time. The financing mechanism that we set up to do this—again, securitization—matches well with that. It has been done in the US and elsewhere, including in the energy sector. In particular, it tends to be utilities that have large programs where they want to smooth the rate impact back to their ultimate consumer. So we've mirrored it off of some of those programs. Again, we think it gives us the flexibility with the credit rating agencies to get an appropriate credit rating, which is then really the driver to minimizing interest costs.

Again, we've put a lot of work into the structure to ensure that it meets the requirements of the legislation, but also a lot of work into it to ensure that we maximize the credit rating that we ultimately achieve, which again is to the benefit of the ratepayer. Again, we continue to work and refine that. We're with the credit rating agencies currently and we'll refine a little bit more, but we think we have a very good mechanism to achieve what the intention of the fair hydro plan is.

Ms. Sophie Kiwala: Thank you. I very much appreciate the work being put into building that structure. No doubt the borrowing is happening through the OPG rather than the province. There has to be a good reason for it, so I appreciate your insight. Can you explain why the OPG is best placed to minimize the cost of the overall program?

Mr. Ken Hartwick: Sure. Maybe just to build on what I commented on is, again, when we look at the program itself, I think there are a couple of key elements that will ultimately lead to minimizing the costs associated with it. One, as I mentioned, is to ensure we get as strong a credit rating as possible for the trust itself, and this ties into OPG proper—I'll say the operating company. Again, we have a good relationship with the credit rating agencies and have been able to have a strong

credit basis for the generation company part of what we do and really want to build on these relationships with the agencies, to achieve the optimal credit rating for this particular product that will ultimately fund the fair hydro plan. The starting point is really building off the relationships we have.

The second, I'd say, key element to minimizing the costs is to always have a clear view as to the cost that will ultimately flow into the program itself. I think others have commented on market renewal reform, programs like that, that have led to a reduction in the peak debt number that the deputy referred to—but also to be active in those discussions with our understanding of the market, where we see trends, what information we can provide. We are the largest generator in the province so we do have some unique insights along the way. But it's really taking that collective knowledge so that, as the program moves forward over the next number of years, we can also then input into what the answer is for the ratepayer here.

Again, between our knowledge of the market itself, between our regulatory understanding and dealings with the OEB and then I think the financial acumen that we have as an organization, I think we can be very constructive in ensuring that the ratepayers are fairly treated as part of the program.

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Ms. Sophie Kiwala: Thank you for that, Mr. Hartwick. I have to say that, as always in estimates, we do have a great opportunity to learn more about what's happening in each of the ministries, and I always appreciate that.

I'm wondering if you can, just lastly, tell us whether you've seen this kind of arrangement elsewhere, where costs are deferred over a longer period of time than originally planned.

Mr. Ken Hartwick: Sure. Yes. In fact, as I've mentioned, we've modelled it after a series of US-types of programs in the utilities sector. Again, this is something that has been used in the US. Whether it's Duke power or Florida Power, there's a series of utilities that have used it. Typically it's when they're doing a large infrastructure renewal type of activity and they want to isolate the costs associated with that—it could be that a hurricane has come through and there is a lot of infrastructure to be rebuilt, unfortunately—those types of instances, or just really where there is significant capital to be put in place.

I'd contrast this a little bit to the Ontario scenario, where investments have been made into the generation of the electricity sector over a number of years and now it's a case of coming up with a mechanism to smooth those costs in a more effective manner back to ratepayers to minimize the impact.

Again, we've seen it used in the US before. It has the impact of ensuring that consumers have a more smoothed approach to how any type of program impacts their rates, from that standpoint. And again, in our conversations with the credit rating agencies so far, they've looked and said, "Yes, this is similar. The approach seems the same,

the asset and, ultimately, the support for the program looks similar.” So it fits well within that model and it’s specific to the utilities sector, which is really the comparison that we wanted to use as we look for the right way to finance this for ratepayers.

Ms. Sophie Kiwala: Specifically, with respect to the OPG and the fair hydro plan, I know that the arrangement between the IESO and OPG includes OPG taking on a financing vehicle, or a debt vehicle, to help finance the fair hydro plan. I would appreciate you adding a few more specifics on how the arrangement works and, more specifically, can you tell us about what OPG’s role is in the administration and ongoing operation of the fair hydro plan?

Mr. Ken Hartwick: Sure. Maybe I’ll start with OPG. They will be the financial services manager for the fair hydro plan trust and, really, that role is very specific to ensuring that we, starting with the IESO, acquire the regulatory asset that they will have established via the reduction in the consumer price. We will acquire that over into the trust and then begin to arrange the financing of that asset.

The other thing the financial services manager will undertake to do is ensuring the validity of the costs that are coming across. It’s very specific as to what costs should be brought over into the trust and therefore included as part of this regulatory asset, so to speak—

The Chair (Ms. Cheri DiNovo): Ms. Kiwala, you have just over two minutes.

Ms. Sophie Kiwala: Thank you. Go ahead.

Mr. Ken Hartwick: —and then, from there, put in place an ongoing financing plan, very focused on the minimization of costs to the ratepayer.

So there’s a lot of administration around its management of the credit rating agencies and its management of our relationship with, and the flow of information with, the IESO. It will be managing the relationship with the Ontario Energy Board, which is a big part of it as far as, the board will have oversight of the trust to ensure that the costs that the trust are incurring are dedicated to the ratepayer and are appropriate for the program. So it’s the administration of all of that activity on behalf of the trust that we will do as the financial services manager. Then, ultimately, we’ll be the ones responsible for determining the right pattern for the recovery of those costs over the next number of years.

Ms. Sophie Kiwala: I’m not sure if we have time for this question, but I’m going to give it a try. With respect to mortgages on a house, for example, and deferring costs over a longer period, it’s not unusual, but it is unusual for an organization like yourselves, is it not, to take on this responsibility? Can you explain a little bit how OPG might be the appropriate entity to play this kind of role, and do you think you’re adding value to the process by acting as the financial services manager? Go.

Mr. Ken Hartwick: Yes, I think we’re adding value. *Laughter.*

Ms. Sophie Kiwala: There we go. How much time?

The Chair (Ms. Cheri DiNovo): About 30 seconds.

Mr. Ken Hartwick: Okay. From our standpoint, we finance large assets now. Darlington refurbishment is going to be a \$12.8-billion investment to redo a nuclear station which will last for 30 years once we’ve done the refurbishment. Running a financing program on a large scale-asset that’s going to benefit Ontario for years to come is something we’re used to. So when we looked at this program, between the IESO skills, the OEB skills and our financing skills, we believe we will add value ultimately to the ratepayer.

Ms. Sophie Kiwala: Thank you.

The Chair (Ms. Cheri DiNovo): And thank you all. This committee stands recessed until 3:45 this afternoon.

The committee recessed from 1015 to 1542.

The Chair (Ms. Cheri DiNovo): Good afternoon, then. We are now going to resume consideration of vote 2901 of the estimates of the Ministry of Energy. There is a total of four hours and 25 minutes remaining.

When the committee recessed this morning, the government caucus had just finished their round of questions. We now move to the official opposition for 20 minutes.

Mr. Smith, the floor is yours.

Mr. Todd Smith: Thanks, Chair. Let’s dig right in to Bill 132. There has been new information released this morning from Ontario’s Auditor General about the circumstances surrounding the electricity rate cut that was announced back in early March. March 2, I believe, was the day that you, Minister, unveiled your plans for the electricity rate cut for Ontario residents and some businesses.

I guess my question surrounds the timing of the actual bill. You made the announcement March 2 and then the bill didn’t get presented to the Legislature for more than two months.

Can you explain why it took two months for the legislation to be presented in the Legislature?

Hon. Glenn Thibeault: I know the deputy can talk about some of the intricate details of the work that went on within the ministry and many of the ministries that we worked with during that time frame, from the Ministry of Finance to the Treasury Board to Cabinet Office to the President of the Treasury Board. There were many, many ministries that were involved and a lot of them were, again, working on a lot of those details.

Anything you want to add further to that, Deputy?

Mr. Serge Imbrogno: I would just add to that, Minister, that this was a very complex piece of legislation, something that a lot of our internal legal counsel hadn’t had experience with before; we had brought in external legal counsel. I think it was complex and it took time for us to actually work our way through the legislation.

Mr. Todd Smith: So is it fair to say that on March 2 this plan was rushed out the door? I mean, you obviously didn’t have the i’s dotted, the t’s crossed. You hadn’t consulted with everyone you just mentioned, the various ministries. What was the rush to get it out the door on March 2? Was it because it was leaked to the Toronto Star, or was March 2 always the date that you wanted this announced?

Hon. Glenn Thibeault: If you recall back to November 2016, when the Premier stated in Ottawa that the government will do more to find ways of reducing electricity rates for all ratepayers in the province, that's when we started working on finding those solutions.

There was no specific date picked. It was making sure that we could continue to find a system that would actually work to bring forward the best benefit for all ratepayers in the province.

Mr. Todd Smith: We didn't get the legislation until late May, but the legislation—or at least the splash that came out on March 2 about the plan—was quickly followed up with advertisements that were running. It took less than a week, I believe, for radio ads to start appearing all across the province.

Why was it that you were able to get radio ads out there before you actually had the election—oh, sorry; “election,” that was a Freudian slip—the electricity rate cut before you had that legislation drafted and ready to go in a way that you felt comfortable with?

Hon. Glenn Thibeault: We felt comfortable where we were moving. As the deputy had mentioned—and I'll get him to speak to the details of that—we were talking about the 25% reduction. We knew that the 8% had already been brought forward, so we were working hard on—as he mentioned—a complex piece of legislation.

The complexity, I think, is the important piece to understand in the duration of making sure that we can get this out—because we did use third-party energy experts and we did use third-party external auditors. KPMG, E and Y, Deloitte were all involved in one way or the other. We were using many, many organizations.

Deputy, you can talk about the complexity of it as well.

Mr. Serge Imbrogno: Yes, I think that we didn't want to rush the legislation. We wanted to make sure that we got it right. I think once the government made a policy announcement in March, that allowed the OEB to move forward with making adjustments to the regulated price plan. That was in May. The OEB did a partial adjustment to the RPP based on the clear policy pronouncement of the government. If the legislation didn't go through and there were issues, then that would have allowed the OEB to make another adjustment, because they adjust the RPP every six months.

In terms of the actual change to the bills, that was done based on an OEB comfort that the government made a policy announcement, they made the change to the RPP—a partial adjustment that they could change going forward. I think that's why you saw the announcement and then letting people know that this was coming and that it would be reflected on their RPP for the next period.

Mr. Todd Smith: Right, and I think most Ontarians see through that for what it is. It was election propaganda. I think we saw that from the Auditor General in her report today.

Now, you've mentioned that you did talk to a lot of independent experts for advice on this deal, and I'd like

to know who they are and if there were any written reports. Because I know, prior to you making the announcement on March 2, that there was a caucus briefing that was given to Liberal members, who maybe were unaware that this plan was coming—the night before. The briefing included a potential question-and-answer for members of the Liberal caucus that was 32 questions long.

Question 4 on that list of questions and answers actually asked about renegotiating contracts. The answer that Liberal members were told to provide in this document was, “We looked further to see if this was a realistic solution. We received independent expert advice that said if we were to renegotiate, not only is it completely uncertain”—basically, what I want to know is who provided the independent expert advice and did they submit any written reports on the renegotiation of contracts and why that didn't occur.

Mr. Serge Imbrogno: We would have had a number of experts provide advice. We had retained Blakes as the law firm that would provide us advice on the legislation. We had E and Y; we had Deloitte, KPMG through our agencies as well as some advice to the government.

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In the review of those assets, there would have been some discussion with the IESO about how difficult it would be to renegotiate the contracts. There would have been an individual who was hired as well to provide, I guess, review as well through the Premier's advisory council. But we would have mainly relied on some of that expertise from the IESO, since they're the contract holder, on how difficult it would be to renegotiate these contracts—they have thousands of contracts—what the timing would be and do we have any leverage if we did that. All that would have gone into advice we received from the IESO a lot, as the contract holder.

Mr. Todd Smith: I know when we were here debating Bill 132 in committee back in the spring, one of the questions that I asked the groups that came in was: Why do you think the government went down this road? I think we're still asking that same question today, given what the Auditor General reported. Why did the government choose to finance this in this very complex way, in a way that actually costs \$4 billion more to electricity customers down the road, than if you'd just borrowed on your own?

I know the auditor was very, very critical of the ministry turning over documents to her office as well, as is required under the law, but I'm wondering if it would be possible if you could turn over any of this independent analysis regarding the fair hydro plan and the advice that you received on renegotiating contracts. Is that something that could be turned over to this committee from those independent experts whose expertise was sought?

Mr. Serge Imbrogno: There are a few things that you mentioned there. One was the \$4 billion. We could address that. The emails that the auditor asked for: I would like to address that as well.

But on the question about the analysis that we received, all of that would have gone into the cabinet submissions that we would have provided to the government. Those are confidential, given that they are part of a cabinet submission—advice to cabinet.

Mr. Todd Smith: Okay. So we won't get those documents on any advice that you received from those independent experts? The committee won't get them?

Mr. Serge Imbrogno: Right. It's just that as part of a cabinet submission, you provide advice and you provide the external analysis into that. It's not something that we make public, so yes, I'd say we wouldn't provide that to the committee at this point.

Mr. Todd Smith: You won't provide that to committee. You don't feel that that has anything to do with the viability of Bill 132 and this fair hydro plan—that the government chose not to take other options that were available because they had received expert advice from others saying that the best way to go was this borrowing scheme that has been undertaken? Because from where I sit and I know from where the Auditor General sits, it seems quite clear. Even industry experts who were here at committee during hearings on Bill 132 said that the reason that the government went down this road was because it was the quickest and easiest way to try to take electricity off the table as an issue before the next election. It didn't actually fix anything that was broken in the electricity system; all it did was take it off the table for three or four years until after the next election, when the price of electricity is going to explode again to record highs, because none of the cost, none of the tangled web has been untangled as a result of Bill 132.

Minister, is it not fair to say that, clearly, the reason that this bill was put in place was for political reasons and for the benefit of the current government, the Liberal Party of Ontario?

Hon. Glenn Thibeault: This bill was put in place to make sure that every single household in the province got a 25% reduction, on average. We heard very loud and clear that people were demanding some change in their electricity bills. This decision that we made after consultation with experts in all sectors, from legal and accounting to the electricity experts who were involved in this, recognized that this policy decision that we made was ensuring that we were keeping with past practices, that we were keeping in place with past history—

Mr. Todd Smith: But it's not past practices, though.

Hon. Glenn Thibeault: Yes, it is.

Mr. Todd Smith: No, it's not past practices, and the auditor made that very clear today—

Hon. Glenn Thibeault: And that's why we disagree with the auditor. We have our experts: KPMG, Deloitte, E and Y, OPG. All of these people who were involved in this process recognize that the way we brought this forward—the policy decision that we made was to keep electricity debt within the rate base. Then, we did pull, as you're aware, some of the social programs. That's the RRRP, which I know I don't have to repeat to you, and the OESP and the Affordability Fund and the on-reserve

First Nation credit. All of those were then pulled from the rate base and put on the tax base at a cost of \$7.3 billion—

Mr. Todd Smith: I know all that. You know I know all that.

Hon. Glenn Thibeault: Yes, so—

Mr. Todd Smith: So let's not discuss that, but let's discuss—

Hon. Glenn Thibeault: Well, you asked the question, so I was happy to answer it.

Mr. Todd Smith: No, I really didn't, actually. I asked—let me make it more clear, then. Wasn't this very complex borrowing scheme designed simply to keep this borrowing and this debt and all of the billions of dollars in interest that will be accrued as a result of this off the government's books?

Hon. Glenn Thibeault: Absolutely not. This was designed to keep with past practice. I use the example of Guelph Hydro. Every time they make an investment, it's not done on the tax base. When OPG builds a new dam or a does a nuclear refurbishment, it's not done on the tax base; it has always been done on the rate base. The policy decision that the government made was to keep that practice. We've ensured, through the accounting standards, that we're meeting those standards. We're not the first place to do this. There are many other places around North America that have actually done this before, to smooth the cost of the large investments that were made—because we have spent \$70 billion reinvesting in our system.

Mr. Todd Smith: But don't you actually see and understand where the Financial Accountability Officer and now the Auditor General are coming at this and saying, "If you had kept this on the province's books, it would have saved \$4 billion for electricity customers down the road"? Do you not respect that opinion—that if you had gone the way that these deals had always been made you could have saved \$4 billion? Is that not something that sounds like an awful lot of money and would have been a huge benefit to electricity customers in Ontario?

Hon. Glenn Thibeault: The \$4-billion figure was an estimate that was made by the Financial Accountability Office based on the initial Ministry of Energy estimates that were made in March 2017. Subsequent analysis conducted by my ministry refined a number of those variables, including the cost of borrowing and the electricity cost forecast. Based on the updated analysis, the total interest is projected to be considerably less than the estimated FAO's 2017 report.

I know there are a few things that you would like to add to that as well.

Mr. Serge Imbrogno: Yes. Just quickly, I could add, the \$4 billion is an FAO estimate. We would have—

Mr. Todd Smith: The auditor backed that up today.

Mr. Serge Imbrogno: We would have provided the FAO with the total peak debt and interest that we were forecasting at the time, which was the \$28 billion, and the FAO would have used that to do their analysis of the

differential between what they believed the OFA or the province could have borrowed at and the 5%. So they did that calculation.

What the minister has said is that subsequent to that, we've updated our total debt number. We've brought it down from \$28 billion to \$20 billion. If the FAO were to recalculate that number, we believe it will be less than the \$4 billion, but we haven't done that because that's an FAO estimate.

Mr. Todd Smith: But it still would have been more than it needed to be. That number still is an unnecessary number, whether it's \$2 billion or \$4 billion.

Mr. Serge Imbrogno: The other thing I was going to say is that we don't agree with the construct of doing that comparison. The government has been clear all along that these are ratepayer costs; that future ratepayers need to pay more for the assets that we've built. We've always been clear there is going to be an interest cost and that cost will be recovered through the rate base. If you borrow, then, through the tax base, you're mixing the two, and we don't think that's consistent.

With the social programs, we're very clear we're going to move them from the rate base to the tax base, and for the GA smoothing, the government is also clear that we would keep that cost, including the financing cost, within the rate base. It's a different policy construct and a different policy rationale.

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Mr. Todd Smith: A light bulb just went off here. Two weeks ago, when we started in estimates with you, Minister, there was a very unusual start to the proceedings. Usually what happens is the minister speaks for 30 minutes about all of the great things that he or she is accomplishing in their ministry. But in this case, my friend and your parliamentary assistant, Mr. Delaney, was asking you about accounting and was asking you about the Auditor General.

At that point, were you aware of what the Auditor General was going to be coming out with in her report, and questioning the apparatus that has been set up to handle all of this electricity debt and trying to march that narrative out ahead of what the Auditor General's report was going to be?

Hon. Glenn Thibeault: Part of my opening statement was to talk about those types of accounting practices. I thought it was important to have the IESO speak to that, so I asked a colleague of mine to ask those questions of the IESO in an opportunity for us to get that information out.

The Chair (Ms. Cheri DiNovo): You have about two minutes left, Mr. Smith.

Mr. Todd Smith: Okay.

This is in the auditor's report today: "Changing the IESO's statements to show this would signal the IESO's adoption of rate-regulated accounting in 2016. Neither of these changes had been made when the financial statements were initially submitted to the IESO's board for approval in February 2017."

The auditor is, in effect, saying that you retroactively changed the books after they had already been submitted

to the board of directors for approval. Doesn't this undermine the independence of the system operator?

Hon. Glenn Thibeault: So I have the system operator here to answer that question.

Mr. Todd Smith: You knew that question was coming.

Hon. Glenn Thibeault: Well, you started saying the IESO, so I looked to Kim.

Ms. Kim Marshall: Okay, thank you. Can you just—

The Chair (Ms. Cheri DiNovo): Can you introduce yourself, please?

Ms. Kim Marshall: Kim Marshall—

Mr. Todd Smith: We're going to run out of time. No disrespect, Kim, but maybe we should wait until the next round because we only have a minute left. So I would defer my time to my colleague from the NDP.

Ms. Kim Marshall: Okay, thank you.

Mr. Peter Tabuns: That was generous of you.

The Chair (Ms. Cheri DiNovo): We now move on to the third party. Mr. Tabuns.

Mr. Peter Tabuns: Thank you, Madam Chair.

I won't spend a lot of time on this—I'm going to come back to the Auditor General's report—but I asked this morning about the release of reports requested through freedom of information and the Information and Privacy Commissioner. Deputy Minister, you were going to look at that. I know you've been busy, but I understand you have ADMs. I've heard; there are rumours that there are people working under you. Were any of them—

Mr. Serge Imbrogno: And ADMs were with me as well, but I have asked—

Mr. Peter Tabuns: They're a hard-working lot, sir.

Mr. Serge Imbrogno: I have asked. I just want to confirm. I believe we have released the Mike White—but I want to get back to you, for sure. But we will respond tomorrow.

Mr. Peter Tabuns: You'll respond tomorrow.

Mr. Serge Imbrogno: Yes.

Mr. Peter Tabuns: Let the record show. Okay. It's been an interesting day so far, and it's not over yet.

Who has the better credit rating, the government of Ontario or OPG?

Mr. Serge Imbrogno: Well, the government of Ontario would have a better credit rating than OPG.

Mr. Peter Tabuns: Does that mean that the government of Ontario can borrow money at a lower interest rate than OPG?

Mr. Serge Imbrogno: For government purposes, I would agree with that, yes.

Mr. Peter Tabuns: I had asked, when we started out on this, what error, if any, in your opinion, the Financial Accountability Officer made when he said that the route you have taken will be more expensive. And that is using OPG to borrow money to reduce hydro bills as opposed to having the government of Ontario borrow money. Is there a fault in his logic about recognizing that Ontario has a better credit rating and can borrow at a lower rate, and thus could have borrowed the money at a lower cost to ratepayers?

Mr. Serge Imbrogno: Mr. Tabuns, I think we've talked about the policy construct for the Ontario fair hydro plan, and I won't repeat it a lot, but it is an important point that we've always said the global adjustment refinancing is a cost of ratepayers, and that includes the refinancing interest costs. We've always said that those costs would be recovered through the rate base.

So when the FAO did their analysis, they would have used numbers that were higher debt numbers than we have now, so if the FAO did that mechanical calculation, that \$4 billion would be lower. But we don't agree with the construct because we've always said that we're not borrowing from the tax base to subsidize the rate base; we want to keep these costs appropriately within the rate base. The math could be correct, but the construct isn't.

Mr. Peter Tabuns: I'm glad that you accept that the math is correct; that's useful.

Going back to the report from the Auditor General. The Auditor General recommended two things in her report today, "that the government: (a) record the true financial impact of the fair hydro plan's electricity rate reduction on the province's budgets and consolidated financial statements; and (b) use a financing structure to fund the rate reduction that is least costly for Ontarians." Are you going to do that?

I think the minister may be the appropriate person to answer.

Hon. Glenn Thibeault: As we said at the opening of our media availability after the Auditor General's report, we don't agree with the assertions and the conclusions that come from that report.

Mr. Peter Tabuns: So you will not be acting on her recommendations?

Hon. Glenn Thibeault: Again, we don't agree with her assertions or the conclusions that come from that report.

Mr. Peter Tabuns: And so you won't be acting on her recommendations?

Hon. Glenn Thibeault: As I've said for the third time, we don't agree with the report, the assertions and the conclusions that were made in that report. We, again, continue to look at the policy options that we made, the world-class experts and the firms that we used, and, again, it seems that we are now in another accounting dispute with the Auditor General.

Mr. Peter Tabuns: So I will take it that you will not be accepting her recommendations and acting on them. I think that's a fair conclusion from the remarks you've made. Your head was nodding.

Mr. Bob Delaney: Chair, fourth time: asked and answered.

The Chair (Ms. Cheri DiNovo): Point of order: Mr. Delaney.

Mr. Bob Delaney: Fourth time: asked and answered.

The Chair (Ms. Cheri DiNovo): That's not really a point of order. We're going to continue. Mr. Tabuns.

Mr. Peter Tabuns: Minister, your department, your ministry, signed a contract for \$500,000 to provide search services for compiling emails in response to the

Auditor General. As I understand it, from today, she still hasn't received those emails.

So two questions: 500,000 bucks is a lot of money—why a half-million dollars to do that? We went through the gas plant stuff—you weren't here, Minister; your life is better for that.

Interjection.

Mr. Peter Tabuns: No. Deputy Minister, you were scarred by that; I understand.

There were an awful lot of emails produced in that process, and I don't remember any talk about it costing a half-million dollars for just one of the entities involved to produce. Why 500,000 bucks?

Hon. Glenn Thibeault: The first thing I can be very clear on is it's a \$500,000 retainer; it's not going to cost anywhere near that amount. I believe we are expecting to spend about \$60,000. Because of the vagueness, I guess, of the ask. I believe global adjustment was the request specifically, and I know, Deputy, you can get to that.

Mr. Serge Imbrogno: I can provide more details, Mr. Tabuns.

Mr. Peter Tabuns: Yes. I appreciate that. Thank you.

Mr. Serge Imbrogno: It does go back to the experience that we've had with searches. When we get a request from the legislative officer, my experience in the past is that if you're not very clear on what the search terms are and you're not clear on who needs to be searched, it leads to issues. With that experience, we wanted to do as robust a search as we could, so we identified in the ministry—because we're not just doing the global adjustment; we're doing the RRRP adjustment, we're doing all the social programs with the OESP—about 80 custodians of records, and we also identified 40 search terms.

Every time we did something, I would update the auditors and say, "Here's the process we're following," and I would give her, almost every two weeks, an update on where we were.

What happened was, when we did those 80 with the 40 search terms, we ended up with two million records. We knew that two million records was a lot, and it included a lot of things that you would catch because the search terms were broad. That's when we hired Wortzmans, which is a search firm expert, but they were purchased by McCarthy's, which is a law firm. Wortzmans has specific expertise in software that you can use to try and get that two million down to a smaller amount that's more directly linked to the ask. From that two million, we got it down to 145,000. At that point, we had ministry staff going through the 145,000 and seeing which ones of those are the most responsive.

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To date, we've supplied the Auditor General's office with, I think, 13,000 documents. As the minister said, we don't expect to spend more than \$60,000. The retainer was \$500,000, but that was at a point when we didn't know how much activity we would be using Wortzmans for, and after the 145,000, we used ministry staff to go through the rest of the files. So we're into 13,000, and I'm not sure—of the 145,000, we're probably halfway through and so we still have more to go.

Mr. Peter Tabuns: Do you have a sense of when the Auditor General will have the emails in total as she's requested?

Mr. Serge Imbrogno: My last update was that we had 13,000, so it's probably another few weeks or so before we go through the rest of the 145,000.

Mr. Peter Tabuns: Okay. The Auditor General noted that you have spent something like \$2 million on external consultants. "The government's ongoing spending on private sector external advisers had exceeded \$2 million when we completed this special report." Have you gone over the \$2 million?

Mr. Serge Imbrogno: I'd have to check what we provided to the auditor. We would have sent the auditor all the Blakes contracts to date and the cost of our financial advisers—any financial advisers through the IESO, OPG, Treasury Board and so on. There was a list of those, and we would have provided that information to the auditor.

Mr. Peter Tabuns: And precisely what was the work that they were doing for that two million bucks?

Mr. Serge Imbrogno: Well, Blakes was our law firm, so they would have been integrally involved in providing advice on the legislation. They had expertise in securitizations that were done in the US, so they would have provided that advice to us. OPG would have had their own advisers looking at different structures, advising on—

Mr. Peter Tabuns: Can I just halt you for—

Mr. Serge Imbrogno: Sure.

Mr. Peter Tabuns: Did OPG have a separate legal bill from you, or was that \$2 million consolidating all the entities—

Mr. Serge Imbrogno: I'd have to check, Mr. Tabuns.

Mr. Peter Tabuns: Could you check and let us know? Thank you.

Please resume.

Mr. Serge Imbrogno: Then the IESO would have had their experts as well, providing whatever advice. That would have been the work that we did. It cut across all the ministries, Treasury Board and finance, with OPG, IESO all working together on providing advice on the legislation as it was crafted.

Mr. Peter Tabuns: So, from today, from the technical briefing that you gave and the media conference that you gave, Minister, the message I got back was that this was all within the realm of public sector accounting standards, and yet you said earlier, in response to my colleague here, your staff hadn't had experience with this before. Now, I'm assuming your staff have a lot of experience with public sector accounting, but they didn't have experience with this, and you had to spend \$2 million for outside consultants to help draft legislation. In fact, this sounds like very novel work to me. If this was not novel, how did you spend two million bucks, and if this was entirely in line with public sector accounting, why did you have to reach out as far as you did?

Mr. Serge Imbrogno: So our experience is with public sector accounting and rate-regulated assets. I'm talking about the securitization, that piece of the legisla-

tion, so that was fairly unique. A lot of experience in the US was securitization, so I think that area of expertise was something that we relied a lot on Blakes for. The accounting was not the issue, in terms of complexity and, going forward; it was the securitization.

Mr. Peter Tabuns: So all the securitization examples you were using came from American jurisdictions?

Mr. Serge Imbrogno: That's correct.

Mr. Peter Tabuns: None were done in Canada under public sector accounting?

Mr. Serge Imbrogno: Some of the examples we gave you were different IESOs and how they do rate-regulated accounting.

Mr. Peter Tabuns: I have the speaking notes from the minister, so—

Mr. Serge Imbrogno: But there were also other examples of securitizations that were done in the US, and OPG gave some examples through Duke Energy and others. I think Jeff Lyash, from his experience in the US, was aware of securitizations that were done in the US, and then we brought that expertise to Ontario.

Mr. Peter Tabuns: I'll just follow on my colleague's earlier question. I should have asked you when we were talking about emails. Can you provide the emails to this committee that were provided or were going to be provided to the Auditor General?

Mr. Serge Imbrogno: I think those emails were all provided to the Auditor General as part of her legislative construct. We wouldn't have gone through those emails for privilege or commercially confidential, so I'd say two things. One, they have confidential, privileged information in them; and two, they're part of the audit of the Auditor General.

Mr. Peter Tabuns: It's an unfortunate response, but okay.

The Auditor General today was saying that the emerging design will result in higher costs for Ontarians. Now, you've made counter-arguments; you've said there are all kinds of advantages to setting up securitization. But I can't help but note that she has said this: "The emerging design will result in higher costs for Ontarians." Is that not correct?

Hon. Glenn Thibeault: Can you clarify or be specific on—

Mr. Peter Tabuns: The financial design that you've brought forward that will be the heart of this program will cost more for Ontarians than if you had simply borrowed the money using the government of Ontario's credit rating and market capacity.

Hon. Glenn Thibeault: I know the deputy will speak to this, but it relates back to our policy decision, Mr. Tabuns. The fair hydro plan is to more fairly allocate the costs to ratepayers over the useful life, not the contractual term, of those electricity-generating assets. Therefore, the primary policy objective was to ensure that the costs were borne by the ratepayers, the beneficiaries of the electricity system, and not the tax base.

We've always believed it's appropriate for ratepayers to pay for the financing of the electricity assets. The rate

base has a different risk profile than the tax base, which would be reflected in different interest costs. Having the rate base pay is not a new policy. We can talk about examples again. I know that Hydro One has borrowed in the capital market since 2000, and I know there are other examples that maybe you can speak to as well, Deputy.

Mr. Serge Imbrogno: Yes, we've talked about OPG borrowing for their projects. They would do it through the rate base. They would get private sector borrowing. What they borrowed from the OEFC is on commercial terms as well.

With the policy construct that we chose, with the social programs that the minister has talked about being pulled out of the rate base—and it's very explicit: \$7 billion plus over the next five years that are removed from ratepayers' costs, and the GA refinancing, again, within the rate base, so today's ratepayers will pay less and tomorrow's ratepayers will pay more.

Mr. Peter Tabuns: Yes, I've no doubt that they'll be paying more.

Mr. Serge Imbrogno: The government has been very explicit that there are additional interest costs that will be recovered.

I think the other thing we mentioned at today's technical briefing was that we're going to release the long-term energy plan on—

Mr. Peter Tabuns: October 26. I took note.

Mr. Serge Imbrogno: —October 26. That will provide—

Mr. Peter Tabuns: I'm looking forward to it.

Mr. Serge Imbrogno: In terms of transparency, we will provide an update on where the residential bill forecast is, including the interest costs associated with the fair hydro plan. I think you'll have a full picture of where things are going based on our updated estimates going forward.

Mr. Peter Tabuns: You made the argument earlier today, as well, that you are opposed to cross-subsidization of the ratepayers by the taxpayers. I understand that argument. But the reality is that if the government of Ontario borrowed the money, used it to reduce rates, and received the revenue from the higher rates in the future, there would not be subsidization by the taxpayer. In fact, it would wash. The taxpayer would not be paying higher taxes, and the ratepayer would not be paying rates as high because the money that's borrowed by the government of Ontario is at a lower interest rate, something we established a few minutes ago.

Given all the energy and activity on the part of your ministry and this government to keep rates low, why would you pass on an opportunity to keep rates—and I'll use \$4 billion until I see some other figures that substantiate another number—\$4 billion lower than they otherwise would have been? What on earth possessed you—

The Chair (Ms. Cheri DiNovo): Two minutes.

1620

Mr. Peter Tabuns: Two minutes? Chair, I thought we were friends.

Why do you pass on the opportunity to keep rates \$4 billion lower than they otherwise would have been? Because there's no subsidy.

Mr. Serge Imbrogno: Mr. Tabuns, I know we've had this discussion.

Mr. Peter Tabuns: We have.

Mr. Serge Imbrogno: Yes. We walked through it at the technical briefing. I think it's important to remember what the policy construct was. I know I'm repeating myself, but I think it's an important principle—once the government established that they want to pull out costs that are already embedded in the rate base, which more appropriately should be on the tax base, and costs that are within the rate base, that should stay in the rate base. That was the policy construct, and that's how we designed the program going forward.

Mr. Peter Tabuns: I know that's how you designed the program going forward, but if in fact there is no actual leakage of cash from the taxpayers to the ratepayers, you're not subsidizing. You're facilitating lower rates—end of story.

But you chose a much more expensive option. You chose an option that is going to mean people will dish out four billion bucks more over the life of this project than they otherwise would have done. You've expended huge efforts to try to drive down rates. I disagree with a lot of your methodology, but that's what you've been saying publicly is your focus, and yet you pass on a \$4-billion opportunity. That doesn't make sense in terms of the logic that you've been putting forward on your own position—

Interjection.

Hon. Glenn Thibeault: Mr. Tabuns, where does it end? Do we then say that every time Guelph Hydro wants to buy an asset, that that should be coming on to the tax base—that every time a utility within the energy sector that needs to borrow money to actually invest should come on the tax base? That's—

Mr. Peter Tabuns: But you actually run the provincial hydro system. You don't run the LDCs—

Hon. Glenn Thibeault: What I'm saying is, where does that end? Do we then actually go to the federal government, which actually has a lower rate than us—

The Chair (Ms. Cheri DiNovo): I'm afraid we are out of time for this segment. We will now move to the government side. Mr. Delaney.

Mr. Bob Delaney: I was actually enjoying that exchange. Earlier when we were in discussion, we were talking about some of OPG's role in some of the things that we're doing, and I'm wondering whether we could ask Mr. Hartwick to come up again to pick up where we left off because, earlier in the day, we were talking about the change of accounting that was done in part through OPG and how that affected transparency in the accounting process.

I did want to explore that part in a little bit more detail with Mr. Hartwick and ask, with regard to the structure that's been created to administer and operate the fair hydro plan—it's a structure in which OPG plays a part—

does that structure provide for transparency as it relates to the borrowing and accounting which in effect is a subject that Mr. Tabuns was exploring? Perhaps you could expand on that a little bit.

Mr. Ken Hartwick: Sure.

The Chair (Ms. Cheri DiNovo): Could you introduce yourself again, please? Thank you.

Mr. Ken Hartwick: Ken Hartwick, CFO at OPG.

Our basis in taking on the role described earlier as the financial services manager for the trust was to establish the trust itself as the borrower that is going to borrow the funds over a period of time, under a securitization program that I talked about, at as low a rate as possible over this period.

Really, a key aspect of the trust, and ultimately OPG, is that the trust will be an issuer under the OSC construct, the commission, similar to OPG. They will file financial statements. They will file quarterly, annually, put out all the necessary information so that the trust itself is very transparent and can be looked at by whoever wants to take a look and see the relative performance of the trust and the borrowing program.

Conversely, when it gets consolidated into OPG, the key aspect that we wanted to make sure was present there was that a reader of financial information, whoever that might be, investors or otherwise, would be able to look at the OPG financial statements and understand, again, how the trust fit into the activities of our company.

And while I mention the Ontario Securities Commission as being one of the key elements that in my view provides a high level of transparency by the very nature of what they do, the second level of that is the credit rating agencies. We're in the process now of talking to several of them. The rating agencies will ultimately give us a credit rating—we think it will be done, hopefully, towards the latter part of November—and that will then, again, be another point of reference for people, such as the people in this room, to look at and have a view from an independent source as to the program itself, the transparency of it and how the information is provided.

From our vantage point—again, coming from public companies—I think that provides a high level of transparency that then can be used by whatever broad set of readers or users of financial information wants it. So I think it will be very clear, it will be very open, similar to how we present our OPG financial results currently.

Mr. Bob Delaney: Okay. Just to elaborate a little bit, you mentioned Ontario Securities Commission filings. If one is, as you put it, a reader of financial information, what types of financial information does Ontario Power Generation routinely file with the Ontario Securities Commission?

Mr. Ken Hartwick: We have, I'd say, three core sets of documents. One is our quarterly financial information. This is the financial statements and then the discussion and analysis that goes around with it which we file for quarters 1, 2 and 3—3 is coming up—and then at year-end we'll put out the full year-end financial statements, which is a much more robust disclosure and commentary

on how the company has performed in the past year and key initiatives that we have under way. The third one is called an "annual information form," which really, then, sets out the strategy of the company—a lot of, I'd say, technical legal requirements on the reporting. So that body of documents exists to support fair disclosure.

I'd say it goes beyond just a sophisticated reader of financial statements. Increasingly now, financial statements are written so that—I won't say a casual reader, but—they're meant to be understandable at a much more casual level, which is the goal, I think, of all companies, OPG included. But there's a robust set of documents that supports someone's ability to look and see what OPG and/or the trust are doing at any particular time.

Mr. Bob Delaney: So then over and above what's available through the Ministry of Energy or what a committee may, from time to time, request of OPG, it's fair to say that through OPG's routine filings with the Ontario Securities Commission there is, in fact, a wide variety of information available and the type of transparency that OSC, whose regulations do have teeth, would demand of any other similar publicly traded company?

Mr. Ken Hartwick: Yes, very much so. Again, our standard at OPG, because we are a filer, is that everything material about the company needs to be disclosed on a timely basis. Again, whether that's good news or not good news, it's no different, so it needs to be summarized and disclosed, quarterly, annually—or any other supporting documents that underpin our reporting requirements.

Mr. Bob Delaney: At the Independent Electricity System Operator, they often go to great lengths to explain the steps that they take to affirm that when they make a decision, the decision is in fact based on a coherent, consistent and comprehensive body of knowledge. Referring to the accounting change that was made with the Fair Hydro Act, I'm assuming that OPG may have taken a similar approach prior to making that change?

Mr. Ken Hartwick: I'd say that the one difference for OPG is that we are rate-regulated. It's a very constructed report under US GAAP. We're rate-regulated, as are most utilities that are reviewed by the Ontario Energy Board, so that accounting construct stayed there. But specific to our activities on the trust, again, we spent a lot of time with our auditors, Ernst and Young, to ensure that they are comfortable with the approach we're taking and what we expect the accounting to be, and then, obviously, through our own internal processes with our accounting staff and with our board, similarly, to make sure that everyone is comfortable with how we're going to account for the trust.

1630

Mr. Bob Delaney: Are you in fact inventing something completely novel for the first time? Or were you adapting constructs used in other jurisdictions and experience gained at other times and in other areas in making the changes in this case?

Mr. Ken Hartwick: I'd say there are two important points on this. First, on the type of security we will look to issue under the trust, which we've referred to as

securitizations: Those are done in Canada and the US. In the US they're done as utility-specific. In Canada they have not been. But it's not a new vehicle or instrument in the Canadian market. Banks do them; other companies do them. They exist.

Similarly to how we do a lot of things—build a new hydro dam or refurbish a nuclear station—we always look out and say, “Where's that body of knowledge that we can look at, refer to and incorporate into our thinking?” We did the same thing on this.

Again, when we look to the US utility market, there were clear examples of companies that have done this identical type of transaction, and we just incorporate that. Obviously, if you're using a US basis for the transaction, there are differences in Canadian law that you have to be conscious of and pay attention to and that need to be built into the actual model that we'll ultimately use. But the frame of what's been done from a securitization standpoint around the world, and then specifically the utility sector, is something that we looked at and we think is appropriate, and ultimately will get us—hopefully—a credit rating that is supportive of what we want to do from a ratepayer standpoint.

Mr. Bob Delaney: To that end, what are some of the checks and balances built into the type of securitization used? And could you perhaps elaborate, just for the record in this committee, on some of the specifics that you mean when you use the term “securitization”?

Mr. Ken Hartwick: Sure. Maybe I'll contrast it to a bond issue that we would do, and then a securitization. For OPG we did a bond issue in the market a couple of weeks ago and that is supported by the overall assets of OPG: our hydro facilities, our nuclear facilities and other plants that we have. That's the underpinning of the security for that specific borrowing—all very standard.

Why the securitization itself is different: It looks to a specific asset in order to provide—as the term suggests—security for the recovery of the money someone is going to lend to the trust. The underlying asset that it's looking to is the one that the IESO sets up, which is the future repayment of that amount over a long period of time from consumers. Really, the term feeds itself, as far as the security is the ultimate customer who is going to repay the funds.

What the structure allows us to do is better match how a customer will pay over the course of the next 30 years to the repayment of the amounts that are ultimately borrowed, in a relatively smooth and even fashion, versus doing a bond issue, where you might have big, lumpy payments that need to be made over time. We think this just fits better with the actual customer who will ultimately pay back the amounts.

Mr. Bob Delaney: In other words, what you're saying is that the basis for which the different types of securities are designed and administered is rock-solid.

Mr. Ken Hartwick: Correct.

Mr. Bob Delaney: Okay. Just to talk a little bit about the impact to the customers of OPG and to the Ontario ratepayer—perhaps you could take a few minutes and

talk about some of the thinking that you've done financially to address the impact to the customer in implementing the fair hydro plan.

Mr. Ken Hartwick: Sure. I'll be very specific to the actual financing program itself, because I think that's ultimately the part of the plan that OPG is acting as the financial manager for.

When we looked at the legislation and then ultimately started to do our analysis around the best way to finance the program, we wanted to ensure that the steps that we were taking would most effectively achieve the highest credit rating. I think that's an important principle on this: We think the trust will have a higher credit rating than OPG because the underlying security is better.

Typically, when you have a higher credit rating and you're borrowing, ultimately what you borrow at is less. So a lot of our technical work has gone into ensuring that we are able to move towards that effective credit rating because that is the underpinning of the cost itself. And I think, on the deputy's earlier comment around the interest rate that underlies the program itself, our expectation is that something from a financial services manager we have a high degree of focus on is—how do we ensure that we can put the funds in place to finance the programs that are going to be in line with what the expected interest cost will be? Over time, hopefully better, but that's always dependent very much on what happens with interest rates—up or down. But again, from a company standpoint, we're very focused on ensuring that the quality of what we do, the quality of the interactions with the credit rating agencies is effective, so that ultimately the investor group that we will go to later in the year will lend us the money at as low a rate as possible, which is what the goal and objective is.

Mr. Bob Delaney: Okay, and in the final four minutes or so that we have, I want to ask you a bit of a wonky question here. You have talked a lot about the process. So that the committee can actually have this on the record, could you tell me a little bit about the process that you've described and tell me why and how that engenders confidence in the outcome that it produces?

Mr. Ken Hartwick: It's a good question. I look at this at a couple of fronts from an OPG perspective. As I mentioned at the beginning, we have three core sets of attributes, skills, however we want to phrase them, that I think fit well into us taking on this role—obviously, one of them being the links with the IESO and the ability to manage the flow of information, the flow of cost, the underlying systems that interact with them, which we already have from an OPG standpoint and which are important for us achieving what the result is that the financial manager is looking for.

Another big part—and this has been referenced a few times—is the ratepayer. Again, we deal with the ratepayer now. We are in front of the OEB on OPG-proper items, as far as our own generation assets. We deal with the board. We have a high level of understanding as to the impact, ultimately, of the actions the OPG takes on customers—as well as what the trust will. I think that

understanding of the customer relationship, the customer impact is something that is well ingrained in the company.

Then, thirdly, it comes down to the financial expertise. I think we have a very strong treasury finance group at OPG that has done some very innovative but very effective financing for a couple of our hydro facilities. Again, the effectiveness of the financing we've done there benefits ratepayers over the long term of those facilities. Same thing in the financing we just did which will fund more of our corporate initiatives, corporate programs. Our group was able to bring a level of discipline and insight into that that ended up being very effective. It has now built an investor base and following that will support the fair hydro plan as we move forward. We already manage \$20 billion of nuclear funds, waste funds, for the company. We managed a \$13-billion pension fund. We have a lot within the company that I think we are proud of, and we think that leads ourselves to being someone who will be effective at this over the long term.

Mr. Bob Delaney: Thank you. How am I doing on time, Chair?

The Chair (Ms. Cheri DiNovo): You've got three minutes.

Mr. Bob Delaney: Three minutes? In three minutes, is there anything else that you care to add to that? Because you were on quite a roll there—

Mr. Ken Hartwick: I thought I'd eaten up four minutes.

Like I said, to me the biggest part of what we want to do as the manager is really drive toward the effectiveness of the financing program. That is ultimately what we are looking to do—and deal with the ratepayer impact of this over that period of time. We know it's a long period of time. I think doing this right early is important, and that's why some of the effort we've put in is to ensuring the structure is right. And then the ongoing discussion and activity with the credit rating agencies has been extensive so far and will be for the next period of time.

Mr. Bob Delaney: Mr. Potts, do you want to try one question?

Mr. Arthur Potts: Chair, if I can, in the last two minutes?

The Chair (Ms. Cheri DiNovo): Two minutes: Mr. Potts.

Mr. Arthur Potts: I just wanted to reflect on this issue about the borrowing rates at which the province of Ontario and OPG can borrow at. The OPG rates of borrowing are a little higher, partly because it's a more risky venture. And if the tax base, policy issues aside, were to be taking on these borrowing rates, what would that potentially do to Ontario's credit rating? Would that not have impact right across the financing of the Ontario government's borrowing?

Hon. Glenn Thibeault: Yes, I think you're looking at us. I'm happy to hand that off to the deputy to answer that.

Mr. Serge Imbrogno: It's an interesting question. It really gets down to the province's capacity to borrow and what the additional impact of that is if this were to go on

to the province's books. That is probably more a question to be posed to the Ministry of Finance or the Ontario Financing Authority. It's difficult for me; as the Deputy Minister of Energy; to answer that question.

Hon. Glenn Thibeault: But I understand what you're trying to get at, MPP Potts, in relation to: What about our financing of roads? Our highways, our roads, that's 20 to 40 years, in some instances, that these assets are amortized as well.

If we start taking on all of the electricity sector debt, how will that affect all other government borrowing? That's part of the reason why we made the policy decision to keep the electricity debt with the beneficiaries of that sector, which is the rate base. That's why, in this sector, it has always been done that way, to ensure that we can keep the two separate when it comes to that type of debt.

I appreciate where that question was coming from, and I think the Ministry of Finance can give you a more definitive answer to that.

Mr. Arthur Potts: The bond rating agencies ultimately would give us that answer—

Hon. Glenn Thibeault: Yes.

Mr. Arthur Potts: —and I wouldn't want to be taking that risk, unlike the members opposite.

The Chair (Ms. Cheri DiNovo): I think we are done now. We're at time. Thank you.

Mr. Harris has asked if the committee would like to take a five-minute break. He's asked for a five-minute recess.

Mr. Michael Harris: I was going to ask for 10.

The Chair (Ms. Cheri DiNovo): Ten minutes? Is it the will of the committee for a 10-minute recess? Everybody in favour? Okay. A 10-minute recess it is.

The committee recessed from 1643 to 1650.

The Chair (Ms. Cheri DiNovo): Welcome back, ladies and gentlemen.

It is now time for the official opposition. Mr. Smith.

Mr. Todd Smith: I guess when I was last in the room here, my friend Mr. Tabuns was asking you about the \$500,000 retainer with the law firm to search the emails. I'm wondering—and I didn't pick this up—did we ever identify what that law firm is, and do you mind sharing that with the committee?

Mr. Serge Imbrogno: I'd be happy to answer that question. I'm not sure if you were in the room, Mr. Smith, when I talked about it. Maybe I'll just give you the background.

My history with doing these searches is that you have to be very comprehensive or else you might miss a search term or you might miss a person. When we got the request from the Auditor General, I wanted to be as comprehensive as we could.

We first started by identifying all of the people in the Ministry of Energy who would have had responsive documents. We identified 80 custodians within the Ministry of Energy. We also came up with a list of search terms. Our list was pretty extensive because we did the global adjustment refinancing and we also took all of the

social programs out of the rate base. So we came up with a list of 40 search terms. Then we did an electronic search through the central agency, just to search electronic files. When we put in the 80 custodians with all those search terms, we came up with two million responsive records.

At that point, we said, “We need to bring in a search firm with expertise to do this with more sophisticated software than we have at the ministry.” That’s when we hired McCarthy’s, but they have a firm within it called Wortzmans that is an expert on search. We had used Wortzmans in the past to do electronic searches for us.

We entered into a retainer for \$500,000 with McCarthy and Wortzmans, but that was just the retainer. Our actual spend to date is in the \$40,000 range. We don’t expect to spend more than \$60,000 to complete all the searches. We’ve provided the Auditor General with about 13,000 documents as of, I believe, last Friday. Each week we try to provide the next batch.

So McCarthy/Wortzmans is the firm, and to date, \$40,000 spent. We don’t expect to spend more than \$60,000.

Mr. Todd Smith: Is the auditor’s office maintaining, then, that she’s still awaiting more documents?

Mr. Serge Imbrogno: Yes. When we went from two million, we got it down to 145,000. Now ministry staff have started to go through that 145,000 to say which of those 145,000 are responsive, because you can imagine that with 40 search terms, sometimes you capture something that isn’t responsive. So we’ve reduced that 145,000. I forget the exact amount, but we’ve probably gone through half of those, and of those, we’ve provided 13,000. We probably have another half to go to meet the full request.

Mr. Todd Smith: Okay. Let’s move on. Later in that document that I was referring to earlier that went to Liberal caucus members prior to the March 2 announcement of the election—I keep doing that; that’s a Freudian slip.

Hon. Glenn Thibeault: Are you doing that purposely?

Mr. Todd Smith: No, I’m really not—the electricity rate cut. It was distributed to those members, as I mentioned before. It was mentioned earlier that when members are asked about what happens when the four-year inflationary cap is going to be lifted in 2021, they’re supposed to tell reporters or whoever is asking them that those details will be released in the long-term energy plan—right—which is now 10 months behind schedule, but I understand that this morning we may have had it officially confirmed that it will be delivered next Thursday, October 26.

What measures is the government planning when ratepayers get hit with those deferred increases once that cap comes off? Is that something you can share with us here today?

Hon. Glenn Thibeault: I don’t think it will come as a surprise to you that what we’ve been talking about all year is how we’re going to continue to find ways to pull costs out of the system. One of those ways of doing that

is market renewal and market reform, which a report has outlined—come 2020, once market renewal is implemented, we could see savings of up to \$5.2 billion over 10 years. We’re going to continue to work with the experts within the sector to find ways that we can pull those costs out. We also need to look at, from market renewal, a capacity auction—using our system more efficiently and more effectively is also something that we’re going to continue to do.

I know, Deputy, that there would be a few things you would like to add for MPP Smith as well.

Mr. Serge Imbrogno: Yes, I will just say that, in the release of the long-term energy plan on October 26, there will be a lot of detail on where we see the market going and where we see the residential-price forecast going. We’ll build in the costs of the fair hydro plan as well, so that will be all transparent. As the minister said, we’re always looking for ways to reduce costs in the system and make it more efficient, whether it’s through conservation, whether it’s through market renewal or whether it’s through LDC consolidation. We had the recent example of Alectra consolidating and saving ratepayer costs. Anything we can do to reduce the global adjustment going forward will also reduce the cost of the deferral of the interest.

Mr. Todd Smith: There are a lot of people who see it as insincere, this—I’m going to get it right this time—electricity rate cut. They see it as insincere because on March 2 it was announced that this rate cut was coming, but the very next day there were over 1,000 applications that were received for new projects, new generators, to go on to the grid, when you’re talking in the long-term energy plan about taking costs out of the system. It would seem that the day after you announced you were going to go down this road and cut rates, you were potentially digging the hole or making the problem worse by bringing on more expensive contracts in the FIT 5. How do you, I guess, balance that off? You realized there had been mistakes made, yet it seemed like the very next day you were making the mistakes again.

Hon. Glenn Thibeault: Thanks for the question. I know you understand that the claim that there were 1,000 new contracts signed the next day was inaccurate.

Mr. Todd Smith: Oh, I didn’t say they were signed; you accepted 1,500 new contracts.

Hon. Glenn Thibeault: But, again, these were already out there. These were already-known contracts that were part of the IESO’s planning process. Again, these were already accounted for and were part of the planning process.

Deputy, if you could clarify a bit more for him as well, that would be great.

Mr. Serge Imbrogno: Yes. On the Large Renewable Procurement, we did suspend the LRP II process that, as the minister said, wasn’t in the market already. We decided to pull that one back. LRP I was already in the market and was already well under way, along with FIT 5. All that forecasting of that contracting would have been built into the IESO’s outlook. I think you’ll see in

the long-term energy plan that we are saying once Pickering comes off we're going to need more capacity, and over our planning horizon, we're going to need 18,000 megawatts more of capacity. If we would have pulled that out, we would have had more to contract in the future. So I think there was a balance. What's in the system now, it was decided to keep it. The LRP II process, which hadn't started yet—the decision was to suspend that.

Mr. Todd Smith: But you do understand how it seems insincere to people—because part of the reason we're in the mess we're in in Ontario is because of these long-term contracts that we've signed, particularly in the renewable sector, for 20 years. It ties the hands of future governments, it ties the hands of current governments going forward, yet you're continuing to sign contracts on the eve of that moment when you're realizing that you need to reduce the price of electricity because of things like energy poverty and other things that have arisen as a result of the mistakes that your government has made over the last 14 years.

1700

Hon. Glenn Thibeault: That's where I'll disagree with you, MPP Smith. There was nothing new that was signed. This was already in the planning, as the deputy mentioned and as I mentioned before. There was nothing new about that. These weren't new contracts that were being signed. These were contracts that were being fulfilled that were already part of the IESO planning outlook before. They were included in all of the things that we're bringing forward, especially the 25% reduction. I don't think anything is insincere about a 25% reduction for all households in this province.

Understanding that the IESO made sure that when they were bringing forward the contracts, these were already signed back in November 2016 and were going to be implemented, one of the things that we did as well—and I know the deputy mentioned it, so I won't yammer on about it—is the cancelling of the LRP II, which was recognizing those would have been new contracts that would have been signed, and we didn't need that power. That's why we cancelled LRP II.

Mr. Todd Smith: Okay. I want to get this straight, because from what you're telling me right now, it doesn't reconcile. The day after you announced the fair hydro plan—the day after—there were over 1,000 applications that were received for new generators. They were received. Nothing was signed; they were received. It wasn't until later in the summer that the contracts were actually awarded under the FIT 5 procurement process. Is that not accurate?

Hon. Glenn Thibeault: If you're talking about FIT 5—

Mr. Todd Smith: That's what I've been talking about.

Hon. Glenn Thibeault: Sorry—then I was misunderstanding what you were asking, because I was going back to the contracts that were out there before.

The FIT 5 contracts were completely different than any LRP II. Most of those contracts, from my under-

standing, Deputy, are very small rooftop-type contracts that are looking at only bringing forward 150 megawatts of total power, which was some of the surplus that came from FIT 4. Am I getting that correct, Deputy?

Mr. Serge Imbrogno: Yes, these are very small projects. The IESO process would have been well under way, and this would have completed that process. So it wouldn't have been a large reduction—

Mr. Todd Smith: I realize that: 150 megawatts is 150 megawatts. It's not 5,000. However, it's a continuation of the mistakes that have been made because these were not procured in a competitive way. We didn't have businesses sharpening their pencils and the province trying to get a better deal; these were contracts over a 20-year period—correct me if I'm wrong—that came with a subsidy to provide electricity to the province of Ontario at a time when we had an oversupply of electricity.

Hon. Glenn Thibeault: A couple of things—

Mr. Todd Smith: No? Is that not right?

Hon. Glenn Thibeault: Well, a couple of things to your question, MPP Smith, I think are important to put out there. Yes, we've acknowledged that the "what" wasn't the problem; it was the "how." If you look back to the 2009 Green Energy Act, was it the right thing to do? Absolutely. Creating and incentivizing our renewable sector is important, because it is part of our diverse supply mix that we need to continue to have as we see our supply changing as we move down.

I know you may not agree with—

Mr. Todd Smith: No, I don't—

Hon. Glenn Thibeault: —renewable energy—

Mr. Todd Smith: No, that's not the issue.

Hon. Glenn Thibeault: No, no, I think that is an important piece that comes from—

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

Hon. Glenn Thibeault: Thank you, Chair. The important thing to recognize is that moving forward, we are going to make sure that we are agnostic in our procurement of power—

Mr. Todd Smith: You should have been agnostic back then.

Hon. Glenn Thibeault: Well, hindsight is 20/20, right?

Interjection.

Hon. Glenn Thibeault: It would have been great if the government back in the day—

The Chair (Ms. Cheri DiNovo): Can we have one speaker at a time?

The minister has the floor.

Hon. Glenn Thibeault: That's right: You say if we could have looked back and had a magic wand and fixed it then, great. But if you want to take that magic wand even further, go back to when your government was in power back in the day. They never invested in the system, and we were spending \$700 million to buy power from the US.

Mr. Todd Smith: Just let me explain one thing: We had a system where we were signing contracts for renew-

able energy projects. It was working well. We probably would have ended up in the same place we are now as far as our renewable mix in Ontario, with companies actually coming in and negotiating contracts in a competitive process, but instead, the Liberal government decided that they were going to pour the money out the door to create a fictitious industry that just hasn't materialized—

Hon. Glenn Thibeault: Well, the blackout—

Mr. Todd Smith: Let me move on because this my time, Chair—

Hon. Glenn Thibeault: The blackout of 2003 really—

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

Mr. Todd Smith: I just want to want to ask you this question. The fair hydro plan: Does it actually remove any costs from the system?

Hon. Glenn Thibeault: The fair hydro plan reduces everyone's bills by 25% starting as of July 1 this year. We have seen costs brought out of the system over the last little while; we'll continue to see costs brought out of the system as we continue to move forward.

Mr. Todd Smith: Where?

Hon. Glenn Thibeault: Well, we talked about some of the examples from the past, right? With the cancellation of LRP II, market renewal will actually change the way that we see our system moving forward.

Mr. Todd Smith: When?

Hon. Glenn Thibeault: We say that by 2020—the IESO is actually working on that right now with a committee that is made up of stakeholders and—who else? I think—

Mr. Todd Smith: The fair hydro plan that was rolled out, the electricity rate cut—does it actually remove any costs from the system, or is just a borrowing scheme that is going to cost us billions of dollars over the life of this scheme?

Hon. Glenn Thibeault: The fair hydro plan has already been launched. With the long-term energy plan, when it comes out next week, you'll see all of the details that relate to how we're going to continue to find ways to take costs out of the system.

It is also important to recognize that the fair hydro plan was a policy decision by this government to act on ensuring that people in Ontario saw the reductions that they were asking for when it came to their electricity bill.

Mr. Todd Smith: How much time?

Ms. Cheri DiNovo: Four minutes or just under.

Mr. Todd Smith: Four minutes.

Let me ask you quickly. This is a project that's close to my heart because it's in my riding of Prince Edward-Hastings—so in the last four minutes, if you can help me with this.

We have a wind turbine project that we've discussed before—and I've talked to the Minister of the Environment and Climate Change about this, as well, and anybody who would listen. This project is on an environmentally sensitive area. You know the story. It's been reduced in size by the Environmental Review Tribunal, from 29 turbines down to nine turbines.

Many industry experts say, "How in the world is this project economically feasible to go ahead?" Those who are on the ground in Prince Edward county are saying, "Why are you forcing a wind turbine into an area that's an environmentally sensitive area, as has been determined by the Environmental Review Tribunal?"

I'm wondering if you can square this circle for me, because there are a lot of outraged people in Prince Edward county right now who don't understand why the ministry is forcing nine turbines on an unwilling host community in an environmentally sensitive area for a so-called environmental project.

Hon. Glenn Thibeault: Thanks for the question, MPP Smith.

I will acknowledge that you've talked with the MOECC, you've talked with me, and you're a strong advocate for your community on that. I recognize that.

This issue is now before the courts; I'm sure you're aware of that. Because it's before the courts, I can't comment on it. I know there are many issues that were relating into it, but it is now before the courts. It's just—as we all are aware—an inappropriate place for me to comment.

Mr. Todd Smith: So let me ask—

Ms. Cheri DiNovo: Two minutes.

Mr. Todd Smith: —the deputy minister, then: The company is proceeding with construction right now. They said there would be no blasting at the site; there's blasting going on at 7 o'clock in the morning on the south shore of Prince Edward county. This company had been a bad actor; it has not been a good company as far as community relations go. Clearly, they've had a very, very difficult time siting their projects. Their Collingwood project was cancelled because it was too close to an airport, for God's sake. This is a German company that has no regard for the people of Prince Edward county, and it's going into an environmentally sensitive area.

If it's before the courts, why are they continuing to build this project?

Mr. Serge Imbrogno: I have the same response as the minister: I have the same restriction on commenting on something that's before the court.

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Mr. Todd Smith: Okay.

Mr. Serge Imbrogno: I know we've had a number of meetings, but that was before it actually went to the court. I know you've facilitated a number of meetings, but it's—

Mr. Todd Smith: If a company—"a" company—can't meet 75% of its nameplate capacity because the wind turbines have been removed from the project and they can no longer meet that capacity as set out in the renewable energy agreement, why would someone re-negotiate that contract to change the nameplate capacity to allow that project to go ahead when we know we don't need that power, and it's in an environmentally sensitive area, and we know it's in an unwilling host community?

Hon. Glenn Thibeault: With all due respect, MPP Smith, you're trying to say "a company" and then you made this one very specific to a company that is now—

Mr. Todd Smith: I tried my best.

Hon. Glenn Thibeault: With all due respect, we have to respect that process. I know you understand that, so I'm not going to bemoan this, but if you wanted to ask a generic question then ask a generic question—

Mr. Todd Smith: I thought I did.

Hon. Glenn Thibeault: —just don't be so specific on location and company.

Mr. Todd Smith: I'll get you next time.

The Chair (Ms. Cheri DiNovo): Time is up. We now move to the third party. Mr. Tabuns.

Mr. Peter Tabuns: Minister, I'm going to be asking you some questions about Hydro One, but before we go there, last week, Ray Davies, OPG's real estate strategy manager, appeared before the city of Toronto's planning and growth committee considering future plans for the Port Lands. In the course of the questions that were posed, it came out that OPG is looking to sell the Hearn generating station, or what remains of the Hearn generating station on the Port Lands.

Now, as you're probably also well aware, the Port Lands are looking at major redevelopment. The province of Ontario has been a partner with the federal government and the city on this. The redevelopment of the Port Lands could have a very substantial, positive impact on the city of Toronto, but OPG is selling this key site. Interestingly, Mr. Davies was asked about the role of the government of Ontario, and he conceded to the committee that OPG is wholly owned by the Ontario government, and "we wouldn't make a decision without their blessing."

I assume you're the priest in this matter. Are you going to withhold that blessing so that the development of the Port Lands can proceed with all three levels of government fully engaged to ensure that what comes forward reflects the needs of the public?

Hon. Glenn Thibeault: Thanks for the question—

Mr. Peter Tabuns: Any time.

Hon. Glenn Thibeault: Our government, I think it's important to say, remains committed to the development of Toronto's waterfront, which I know is important to you. But going back to 2012, OPG announced that Studios of America and Comweb Group would be leasing the property of the former generating station.

Mr. Peter Tabuns: That's right.

Hon. Glenn Thibeault: That lease, I don't know if you're aware, runs until 2041. As part of this lease, Studios of America has the right of first refusal on any potential sale, and at the same time, Studios of America is able to approach OPG any time to make an offer to purchase.

Mr. Peter Tabuns: Has that happened?

Hon. Glenn Thibeault: Well, that was the contract that—

Mr. Peter Tabuns: But has Studios of America approached OPG and said, "We want to buy this property"?

Hon. Glenn Thibeault: Getting right to that: OPG is currently in talks with Studios of America because they exercised their right to make an offer to buy the Hearn generating station. It is something that we're going to continue to monitor and continue to talk with OPG about.

It is important to note, too—as you would probably be well aware—that this is a former industrial site, so the proper environmental remediation will have to take place before any development would occur on that facility.

Mr. Peter Tabuns: Are you going to withhold your blessing so that the planning for this very large area is going to remain in the hands of the three levels of government so we don't have to be in a position where Studios of America is going to be dictating our development plans?

Mr. Davies may be wrong; maybe it doesn't need your blessing, but I suspect it does.

Hon. Glenn Thibeault: There are conversations ongoing, so it is inappropriate for me to say anything further at this time, because they are utilizing the terms that are in their lease agreement.

Are there any other details that you think are important to outline for Mr. Tabuns?

Mr. Serge Imbrogno: Yes. I would just say, not specific to the commercial discussions, but any redevelopment of that site would have to go through the city of Toronto zoning bylaws, so it's not that someone has carte blanche to do whatever they want with the site. Whether it's in OPG's hands and being leased, or whether it's in the city's hands being leased, they would still have to comply with city of Toronto zoning bylaws.

Mr. Peter Tabuns: That's an interesting theoretical statement. Until the OMB is dramatically changed, the city of Toronto zoning bylaws are often overturned by the OMB.

The ownership of this piece of land and this structure by OPG and, thus, in turn, by the province, gives an awful lot more power in terms of dictating what's going to be there and what's not going to be there, as opposed to having a private company own the whole thing. So I want to know if the commitment of the province of Ontario to the redevelopment of the Port Lands extends to ensuring maintenance of ownership and control, so that all three levels of government, with a great deal of power and authority, can determine what's really going to go on those sites. Are you or are you not going to be a partner with the city of Toronto?

Hon. Glenn Thibeault: We always work with our municipal partners on important issues. It's important to say that, even this past June, a \$1.2-billion investment in the Port Lands Flood Protection Project was done by all three levels of government. Right now, this is part of the lease agreement that Studios of America has within their prerogative to do, and they're in negotiations. That's really all that we're able to comment on.

Mr. Peter Tabuns: Well, you know, once you sell this parcel you won't actually be able to set the course and direction for utilization of this parcel in the future. At least for this parcel of the waterfront, you will no longer

be a partner. So I think it's very important for the province to make it quite clear that, until all of the plans have been settled and an agreement is made mutually between the three parties, you will be holding on to this real estate so that the course can be directed by the three levels of government.

Hon. Glenn Thibeault: It's—

Mr. Peter Tabuns: You're nodding, and I like that. I'm assuming that's assent. If that could be reported as assent by Hansard, I would be happy.

Hon. Glenn Thibeault: I understand what you're saying, Mr. Tabuns. This lease agreement runs until 2041.

Mr. Peter Tabuns: I understand.

Hon. Glenn Thibeault: So we're looking at 2042 before both Toronto or the government would be able to look at any other option, depending on what Studios of America and the Comweb Group talk about.

Mr. Peter Tabuns: I think your hand would be immeasurably stronger if you still continued to own the property, as opposed to having cashed out and sold the whole thing.

Going on to Hydro One: I asked you a question about this—or, I asked the Premier. I think you, Minister, were given the question. Hydro One recently announced it was going to take OEB to court over treatment of a \$2.6-billion tax gift at the time of sale because the OEB didn't give 100% of that gift to the investors.

Now, you control that board—or so I was told, when we went through all the debates back and forth over the ownership and control of Hydro One. You control that board; why do you not stop this court action and allow the OEB ruling, as feeble as it was, to defend the ratepayers?

Mr. Serge Imbrogno: I think when you say “the board,” you're talking about the Hydro One board.

Mr. Peter Tabuns: Yes.

Mr. Serge Imbrogno: I think it's important—well, we recognize that the OEB is an independent regulator.

Mr. Peter Tabuns: Yes.

Mr. Serge Imbrogno: Hydro One has a board that is independent as well.

Mr. Peter Tabuns: Yes.

Mr. Serge Imbrogno: We had an example of OPG having a disagreement with the OEB and they went through a court process. It actually went all the way to the Supreme Court, and the Supreme Court ruled in favour of the OEB.

I think these are important regulatory issues that need to be worked through the system, and I think it would be premature or not appropriate for us to stop that process. I think it's important that Hydro One use whatever process it thinks appropriate and the OEB would also defend its position and move forward in that way.

Mr. Peter Tabuns: We've been hearing a lot from your government about the need to protect ratepayers against higher rates. The OEB has made a ruling—again, feebly—but in the main on the side of ratepayers, when it comes to the disposition of this \$2.6 billion.

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You control that board. You could actually protect ratepayers. You could say, “No, we're not going to chew up public money, either on the OEB side or the Hydro One side, in court costs.” We could say that, in fact, ratepayers will defend the OEB action that is defending you. You control the board. Why are you not acting to use your power to protect ratepayers?

Mr. Serge Imbrogno: Again, Mr. Tabuns, I think it's a policy principle to allow the OEB to do what the OEB does. The OEB has a process that allows for Hydro One or OEB or any other entity to either ask for a new panel to review its case or challenge the OEB decision in court. Those are constructs that are there for any utility to use, whether it's Hydro One, OPG or the LDCs. Hydro One believes it's appropriate for it to do that.

Mr. Peter Tabuns: So when it comes to protecting ratepayers, you're opting out. That's what you're saying. You're not going to use the power that you have. You're not going to use the power that you told the Legislature you have to protect ratepayers. You're just going to stand aside and let everybody blow their brains out in court on legal costs, when you have claimed all along that you have the power to direct this corporation even though you don't own a majority anymore. You're not actually going to stand up for ratepayers; that's what you're telling me? You are, aren't you? You are telling me that. The policy protecting ratepayers is not quite as important as that policy of protecting the investors.

Hon. Glenn Thibeault: We've been protecting ratepayers with the fair hydro plan, and with the reduction of the RRRP to help many of the Hydro One R1 and R2 customers who will see a 40% to 50% reduction even further.

When it comes to this decision, as the deputy was saying, this is the process that our independent regulator has been involved with with Hydro One, and that process needs to play out.

The OEB, not feebly but very forcefully, has come forward and has protected ratepayers with this decision against Hydro One by inhibiting a lot of their asks. I believe, off the top of my head, it is 10%. So we're only looking at their increases, which are still going to not be affected because of our fair hydro plan, by keeping the costs to the cost of inflation—but 0.1% for 2017 and 0.2%, I believe, for 2018.

Did I get those numbers correct? Thank you.

Mr. Peter Tabuns: So, in fact, Ontario's “plan,” the fair hydro plan, will be borrowing even more money to help ratepayers if Hydro One is successful. It's going to mean higher hydro rates—correct?—if Hydro One is successful, and you're going to have to borrow more money to make up for the gap.

Hon. Glenn Thibeault: No.

Mr. Peter Tabuns: No? Why would you not have to borrow more money?

Hon. Glenn Thibeault: Actually, when I talked about the RRRP—those are programs that are on the tax base. Those were the social programs that we talked about.

Mr. Peter Tabuns: But we're talking about the rates overall. We're not talking just about the RRRP. If, in fact—

Hon. Glenn Thibeault: I was talking specifically about the RRRP.

Mr. Peter Tabuns: Well, I'll talk specifically about the \$2.6-billion tax gift. The OEB said a portion of it should be given to the ratepayers to protect them against rate increases, and the rest will stay with the investors.

If, in fact, the portion that was going to go and help reduce rates for ratepayers is overturned in court, then you're going to have to borrow more money on the markets to meet the commitments that you've made to keep rates down. Are you telling me you won't have to borrow more money—

Hon. Glenn Thibeault: So when it comes to—

Mr. Peter Tabuns: —if rates go up?

Hon. Glenn Thibeault: Sorry. Are you finished?

Mr. Peter Tabuns: I am.

Hon. Glenn Thibeault: I was trying to be polite.

Mr. Peter Tabuns: No, no.

Hon. Glenn Thibeault: Okay. As the independent arm's-length regulator of the province's energy sector, the OEB continues to play that balancing role between the interests of the ratepayers and, of course, companies, and that's their mandate. Part of that OEB order included the deferral tax issue. The OEB has indicated that some of the value of that tax asset should be given back to ratepayers. In determining that difference between the allocation of the tax benefits between the shareholder and the ratepayer, it's the OEB that relied on the principles from previous cases that allowed them to make that decision. We're going to continue to monitor that decision carefully and see how that accounting will impact the province.

Anything you want to add?

Mr. Serge Imbrogno: I'll just say on our forecasting of where prices are going and how much we'll need to borrow to put in place the fair hydro plan, there's a lot of factors that will be up and down. There are assumptions about what's happening with Hydro One. We have the transmission rate order. There's also the distribution rate order coming out. We also have OPG's rate order. These things are going to move up and down, and whether we need to borrow more or less—interest rates are going to go up, interest rates are going to down—so it's hard to just focus in on one change and try and figure out if that's going to have a net impact or a net decrease. We factor in all these rate asks that OPG and Hydro One have made—

Mr. Peter Tabuns: So if a rate goes up, you're not going to have to borrow more money to deal with the necessity of delivering on that rate reduction that you've talked about?

Mr. Serge Imbrogno: We would have already built the OPG ask and the Hydro One ask into our forecast going forward. So to the extent that those are up and down, then we'll have to make an adjustment, but it's hard for us to say today what that's going to be, and

that's going to be other issues like interest rates as well that have to be—

Mr. Peter Tabuns: So if the rates don't go up as much, you aren't going to be able to reduce your borrowing? You're telling me that it's irrelevant whether the rates go up or down?

Mr. Serge Imbrogno: No. I'm just saying, right now, we've assumed that they're going to recede just for forecasting purposes. If they recede less, then that'll be less of a pressure. If they recede more, it'll be more of a pressure. But there's all the other factors that go into it, with what's happening with the LDCs, what's happening with OPG, what's happening with interest rates, so it's hard to just focus on that one. I think we would expect that there will be changes over time that we're going to have to adjust up or down.

Mr. Peter Tabuns: Deputy Minister, I've known you for a number of years now. That was one of the least useful answers you have given, and you, sir, are one of the most experienced and capable people I've met in this arena. You are trying to tell me white is black and if the rates go up in any part of this whole machine that you won't have to borrow more.

Mr. Serge Imbrogno: That's not what I'm saying. I'm saying we've already forecast based on what OPG and Hydro One have asked the OEB. If it comes in less, then that will be less borrowing.

Mr. Peter Tabuns: Yes, and so if they go up, there will be more borrowing.

Mr. Serge Imbrogno: That's right. I'm just saying that there's a lot of factors that—

Mr. Peter Tabuns: I'm sure there are a lot of factors.

Mr. Serge Imbrogno: —add to that calculation. The OEB decision is one of them. Interest rates are another one. There's all these factors that—

Mr. Peter Tabuns: All kinds of factors.

Mr. Serge Imbrogno: —are going to change the amount we need to borrow.

Mr. Peter Tabuns: And you're in a position, since you have the controlling interest in this board, to accept the OEB decision and not fight them, and you're deciding not to do that? Either that, or you don't control the board. Either you've decided you control the board and you're not going to protect ratepayers or you don't control the board. Do you control the board?

Mr. Serge Imbrogno: There's a governance agreement, but I think it's important to look back at what we did with OPG. There was a decision to allow OPG to use the policies that are available to the OEB, whether it be to ask for a new board review or to challenge the OEB in court, and with OPG they were allowed to move forward and, as I mentioned, it went all the way to the Supreme Court and that ruled in favour of the OEB. That process was available to OPG and I think the same process is now available to Hydro One or any other entity that deals with—

Mr. Peter Tabuns: So will you let this go all the way to the—

The Chair (Ms. Cheri DiNovo): Mr. Tabuns, you have a minute and a half.

Mr. Peter Tabuns: So will you let this go all the way to the Supreme Court?

Mr. Serge Imbrogno: I think at this point, the process will play out according to whatever the OEB has set out and allows utilities to do.

Mr. Peter Tabuns: So you don't expect to intervene at any point?

Mr. Serge Imbrogno: The precedent with OPG was to allow OPG to go forward—

Mr. Peter Tabuns: Sure, but you could break that precedent. You could say, “No, we're not going to spend a lot of money on lawyers.” Much as we like lawyers, you're going to save money for ratepayers.

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Mr. Serge Imbrogno: These are important regulatory principles that have to be decided.

Mr. Peter Tabuns: They are.

Mr. Serge Imbrogno: Sometimes, you might need a court ruling to either rule in favour of the OEB or in favour of companies. I think that's why that process is in place: to allow it to go forward. We didn't stop OPG from moving forward with that review to the Supreme Court—

Mr. Peter Tabuns: You may have made a mistake, then. Maybe you should have saved the ratepayers some money and said, “No, you're not going to go forward to the Supreme Court. There's no point in doing this.” You could have done that. You could have set a different precedent.

I just find it extraordinary that you claim to have the power and authority to protect ratepayers; you claim to be able to control this board; and you're not going to act to protect ratepayers against a waste of money and against higher rates, when you have a ruling from the OEB that I think you would probably defend and, in fact, have, just a few minutes ago.

In buying Avista, you're back in the coal-generation business. How's that working out?

The Chair (Ms. Cheri DiNovo): And I think that your time is up, Mr. Tabuns.

Laughter.

The Chair (Ms. Cheri DiNovo): We now move to the government side. Mr. Delaney.

Interjections.

Mr. Bob Delaney: Tempted as I am to open that Pandora's box, I think not.

Mr. Peter Tabuns: That box is still waiting for you.

Mr. Bob Delaney: I would like to explore some discussion on something that we've discussed at various points during these hearings, which is rate-regulated assets. On some of the questions that I'm going to ask, the minister may want to get some input from IESO, because they are going to be some specific questions. If you would like to ask our representative from IESO to join us, that might save a little bit of time. I will allow her to introduce herself for Hansard.

Ms. Kim Marshall: Good afternoon. Kim Marshall, CFO of the IESO.

Mr. Bob Delaney: Thank you very much for attending, and we very much appreciate the time.

Earlier in the session, we were asking about IESO's accounting policy and how it compares to other entities similar to the IESO. At the time, you said you were looking for trends, and you did some work in terms of how others are defining their rate-regulated assets.

Perhaps we could start by having you elaborate on this, and discuss this method with the other companies who are using it to determine what the overall advantages are.

Ms. Kim Marshall: Thank you for the question. What I'll do is go into more detail of the process we went through and the discussions we had, and some of the outcomes of those discussions, so that it provides some context.

When we first started looking at our accounting, we wanted to compare it to organizations that had similar mandates to the IESO. There are nine organizations in North America that are either real-time operators, system operators or various flavours of that. Two of them are in Canada—the IESO and the Alberta Electric System Operator—and then there are seven in the US.

For each of those entities, we had a conversation either by email or in person—or, rather, on the phone—about the nature of their legislation, the nature of their mandate, the nature of their operations, and what kind of accounting they followed—US GAAP versus public sector etc. We also talked a certain amount about their governance principles, because all of them have very different set-ups in terms of what their objectives are, who their shareholders or stakeholders are—things of that nature. We wanted to have those comparator points as well.

The two pieces we were focused on were the concept of the market accounts—did they reflect market accounts, and if they did, to what degree and what types of accounts?—and we also wanted to understand their approach to regulatory accounting and what they recognized in their statements, and their rationale for that. We wanted a fairly broad picture of this.

What we found out is that of the other eight ISOs, seven recognized the balance of market participants: ISO New England; New York ISO; Midcontinent ISO, or MISO; PJM, Pennsylvania-Jersey-Maryland; CAISO in California; ERCOT in Texas; and the Southwest Power Pool in the central US.

For each of them, we had conversations around the guidance that they use, and it was very similar to the research that we had done in conjunction with KPMG. They followed very much the guidance that identified criteria for establishing yourself as a rate-regulated entity.

The three criteria that were used were:

“(1) The entity's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator or by its own governing board empowered by statute or contract to establish rates that bind customers.” I'll come back to each of these and how they applied to us.

“(2) The regulated rates are designed to recover the specific entity’s costs of providing the regulated services or products. This criterion is intended to be applied to the substance of the regulation, rather than its form. If an entity’s regulated rates are based on the costs of a group of entities and the entity is so large in relation to the group of entities that its costs are, in essence, the group’s costs, the regulation would meet this criterion for that entity.”

“(3) In view of the demand for the regulated services or products and the level of competition, direct and indirect, it is reasonable to assume that rates set at levels that will recover the entity’s costs can be charged to and collected from customers.”

So everyone followed that basic construct in terms of what are the criteria used.

Just to focus on the IESO and how we met those, I think when I was here the other day I talked about our smart meter entity, so I’d like to use that one as the example because it really lends itself well to helping us in terms of making that change for 2016, in particular. So it talks about “The entity’s rates for regulated services or products ... are subject to approval by an independent, third-party regulator...” For the smart meter entity, the IESO has been designated as the administrator of the smart meter entity. However, the rate to recover that is established by an order of the Ontario Energy Board, which we view as an independent regulator. The smart meter really met that criterion quite well.

The second item is “The regulated rates are designed to recover the specific entity’s costs...” In the case of the smart meter, the IESO put together a submission to the Ontario Energy Board which outlined the costs that would be incurred, had projections of costs that were going to be ongoing operational costs, and had a period of time over which it was expected that those smart meter costs were going to be recovered. So, very much, that smart meter lent itself to that criterion.

The third criterion is really about the reasonability that the costs are going to be recovered. Based upon where we are with respect to the electricity sector and, frankly, where we are a number of years later with the smart meter, we are very comfortable in terms of that criterion being met.

So we felt very comfortable, in conjunction with working with KPMG, obviously, that the smart meter as a regulated asset met those criteria and, frankly, again, brought us in line with our peers in that regard.

The other decision point was around the regulatory asset and recognition of regulatory asset. What we found was that six of the eight entities recognized the economic effects of rate regulation. AESO in Alberta, ISO New England, New York ISO, MISO, PJM and ERCOT in Texas—all of them had regulatory assets on their balance sheet. What was interesting is that when we talked to the two that didn’t, California and Southwest, we found that what they had within their accounting framework was the ability to have a regulatory asset but they didn’t feel that they had anything that actually met the criteria or served

that purpose for them. It wasn’t a case of them not following regulatory accounting; it was more that they didn’t have anything that met that requirement.

When we took a look at the market accounts piece for us, again, as I’ve said before, we felt that reflecting them on our balance sheet really served the purpose of providing greater transparency to the activities. There had been \$17 billion flowing through our financial statements—or through our building, let’s put it that way—that was not reflected on our financial statements, so putting the market accounts there enabled us to do that.

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It also, we felt from a regulatory point of view, reflected the economic substance of what we were doing. For the smart meter, what we had previously done was expense the entire amount that had been invested in the smart meter, when in reality we were collecting the money over time. So we didn’t feel that our accounting reflected the actual substance of what was happening in terms of the cash flow.

I think I mentioned before that what we were actually doing for our internal management purposes was backing the smart meter out and showing it, in effect, as a separate regulated asset. This really served for us to meet the needs of transparency and also meet the needs of what the economic fundamentals were of what we were doing, and it brought us in line with our peers.

Perhaps, most importantly, for us it was a paper activity. It had no effect on our costs. It had no effect on the charges to the ratepayer. For us it was simply a question of better visibility for the users of our financial statements.

Mr. Bob Delaney: I think this is perhaps one of the few rooms in Ontario where a detailed discussion of the methodology of accounting for the value of rate-regulated assets can fill a room with independent parties who are listening with rapt attention.

Could you discuss, please, how the methodology that we’ve been considering here meshes with public sector accounting standards in Canada, which is a body of knowledge that continues to evolve with the state of the art as it exists at that particular time? At this point in history, across Canada, we’re changing some of those definitional issues.

Before I pursue that and talk in a little bit more detail about generally accepted accounting principles, I wanted to pause for a minute and have you go into the way in which how Ontario is proposing the changes and implementing them revolves around the existing set of public sector accounting standards—because those standards, almost by definition, are at any one given time a fixed body of knowledge, but we’re proposing things that probably will prompt them to change.

Ms. Kim Marshall: Let me give you a little preamble: First of all, when I speak to this, I’m going to speak to this in an IESO-specific way. I don’t have enough visibility into the broader government accounting—although we obviously keep in very close contact with

the provincial controller because of the nature of the consolidation of our results into the province.

It's interesting that you talked about accounting standards as somewhat fixed. I would say that while that is true in terms of the words, I think there's a lot more judgment involved around accounting than perhaps most non-accountants would expect.

I'm going to go through the language and the actual words here, but it's interesting: There's a fair amount of perspective on this, or judgment involved. Yes, the IESO follows public sector accounting standards, or PSAS. As we've said repeatedly, PSAS neither explicitly permits nor prohibits the recognition, measurement, presentation or disclosure of rate-regulated activities. It is silent. I'm not sure that anybody could say a definitive, "Here's why it is silent on that," just as a point of contention from me personally.

In the absence of a clear position on an issue and either a black or a white, standard accounting practice dictates that an entity is entitled to consult other accounting standards. There's a fairly common practice we would call the hierarchy of standards. You would look to your standard; obviously, if there is nothing that is specific around what you're looking for, look to other standards. View that as a hierarchy approach in terms of using the frameworks.

I'll read from the PSAS, because I wouldn't want to lose any rapt attention. "Paragraphs PS 1150.19 – .24 identify some of the other sources that a public sector reporting entity might consult to assist in selecting accounting policies and disclosures that comply with paragraph PS 1150.05.

"19 Pronouncements issued by other bodies authorized to issue accounting standards may be useful sources to consult. For example, accounting pronouncements published with the authority of the Canadian Accounting Standards Board (AcSB), International Accounting Standards Board (IASB), US Federal Accounting Standards Advisory Board (FASAB), US Governmental Accounting Standards Board (GASB), or International Public Sector Accounting Standards Board (IPSASB) are often important sources to consult on matters not covered by primary sources of GAAP or for assistance in applying a primary source of GAAP to specific circumstances."

Once we explored the use of PSAS and what PSAS meant for us and what it reflected for us, we then looked to US GAAP. That was particularly helpful for us, because so many of our peers are in the US and, frankly, as OPG mentioned just now, both OPG and Hydro One use US GAAP because of their issuer status.

Given that, we worked with KPMG to provide the research for us in terms of what the US GAAP meant and what the various guidelines were around that. We came to the conclusion that this worked very well for us for this particular item.

I think it's fairly well known here that KPMG enlisted the support of Deloitte, not to take a look at the IESO—because Deloitte is not the auditor of the IESO and doesn't have that kind of visibility to us—but more in

terms of the approach that was taken, to provide some guidance in terms of support for that approach.

I'm going to read the Deloitte statement that they provided to us:

"KPMG is the auditor of the IESO. Deloitte was engaged by KPMG to provide its opinion as to whether a public sector entity could use rate-regulated accounting under Canadian Public Sector Accounting Standards"—so, under PSAS. Could an organization, under PSAS, use rate-regulated accounting?

"PSAS are silent on the question of how to account for the impacts of rate regulation. Through an analysis of the guidance provided in PSAS, Deloitte concluded that it is appropriate for a public sector entity to select accounting policies that would result in the recognition of the impacts of rate regulation, by analogy to US accounting standards, in the related eligibility of criteria on the topic.

"Deloitte further concluded that any regulatory assets and liabilities recognized through appropriate application of these policies would meet the criteria for recognition under PSAS.

"It should be noted that Deloitte did not include in its scope an assessment of the specific regulatory assets or liabilities recognized by the IESO though application of this accounting policy under PSAS."

In conjunction with our work with KPMG, Deloitte took a look at the approach that we followed in terms of making a decision, and supported that approach. So we are very comfortable with that.

Mr. Bob Delaney: Okay. So what you've said, in essence, is that where Canada's Public Sector Accounting Standards have been silent in terms of rate-regulated accounting, to look to US generally accepted accounting principles, or GAAP, is in fact a definitive and credible basis for IESO and the province making the choices that they have in implementing these current programs.

Ms. Kim Marshall: Yes.

Mr. Bob Delaney: Okay.

The Chair (Ms. Cheri DiNovo): Mr. Delaney, you have just over two minutes.

Mr. Bob Delaney: Okay. Just to be specific, then, is there in fact a clause or a section of PSAS that permits the use of US GAAP in a given scenario?

Ms. Kim Marshall: If I go back to the PSAS language that I read out, it doesn't necessarily point you to US GAAP. What it will say is that a reporting entity "might consult to assist in selecting accounting policies and disclosures that comply" and "Pronouncements issued by other bodies authorized to issue accounting standards"—that's pointing more to the approach of where there is not clarity, you are entitled to move within the accounting hierarchy and look to other frameworks for your guidance. It's not necessarily pointing to US GAAP; it is, in general, how to approach it.

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Mr. Bob Delaney: Okay. Chair, although I have some more subject matter to explore with this particular individual, I'm pretty much at the end of my turn in the

rotation, so I think I'm going to come back to it with a fresh question in the next round.

The Chair (Ms. Cheri DiNovo): Okay. Thank you.

We now move to the official opposition. Mr. Smith.

Mr. Todd Smith: Thanks, Chair. I just want to say that I think it's quite reprehensible what's happening here with the government and their continued undermining of the Auditor General and the independent officers of the Legislature. When you're a desperate government, I guess your last resort is to continue to try to take the powers away from the independent oversight that currently exists here at the Legislature—and we've seen it time and time again. There's no question that what they've done in this electricity rate cut is find creative ways to complicate matters, to find another target instead of taking responsibility as a government for the mismanagement and the mistakes that have been made.

I have some odds and ends that I wanted to clean up here in the last 10 minutes that we have together this afternoon, and over the last eight or nine months that I have been on the job—

Mr. Bob Delaney: Chair.

The Chair (Ms. Cheri DiNovo): A minute, Mr. Smith.

Mr. Delaney.

Mr. Bob Delaney: Chair, while I respect the opinion of my colleague, if he has raised that matter on a point of privilege I have to disagree with the aspersions that he may be casting upon the Auditor General, who was not mentioned in our question. We were in fact exploring the basis on which IESO has made—

The Chair (Ms. Cheri DiNovo): Thank you. This isn't a debate, as you know, Mr. Delaney. It's Mr. Smith's time—

Mr. Bob Delaney: I didn't start it.

The Chair (Ms. Cheri DiNovo): —so we'll just defer to him.

Mr. Arthur Potts: He was just trying to correct his record.

The Chair (Ms. Cheri DiNovo): Okay. It's Mr. Smith's time. Thank you.

Mr. Todd Smith: This government will do anything to avoid taking responsibility for the calamity they've created in the energy sector, and I'll leave it at that.

In the eight or nine months that I've been the critic for energy, I've had the opportunity to travel the province and see a number of different projects. I wanted to just get the minister and the deputy minister's opinions on a couple of those projects and some other new developments that may be occurring.

It is an exciting time in electricity. There are a lot of innovative things that are happening. I know you both understand that, but one of the visits that I had this summer was to London and the West 5 community that's located in London. This community would require a utility-like investment and operation for establishing the community-wide interconnected solar PV systems together with a traditional community infrastructure for distributing electricity for the consumers. In essence, it

can be considered a micro utility behind the master net meter. This community, by virtue of its location in west London, is aptly suited to be serviced by London Hydro for its success and a comparable level of service as that of other hydro customers province-wide.

There are a lot of things we learned during our visit there, but some of the recommendations that have been made in regard to allowing this type of innovative and almost futuristic type of community need to be addressed. Special considerations will be needed for London Hydro to undertake these following actions, and I'll outline them for you:

“The infrastructure required to collect generation to the master net meter shall ... be allowed to be maintained by London Hydro as a standard distribution asset....”

There's another one: “Approval or exception is required for the unique billing of the community as described above.”

“Since London Hydro would be the billing agent, approval may be required for administration fees for managing this unique billing and settlement process. These administration fees will be charged either to the individual building and/or the micro utility.”

I guess the question is, have you considered any of these recommendations from London and London Hydro or West 5 and the Sifton Properties development, and when can we expect some movement on this type of new community development?

Hon. Glenn Thibeault: Thank you, MPP Smith, for the question. You're right; innovation is the game changer in this sector. I joke that I've been in this file 492 days, not that anyone's counting—and you've been around as critic for eight, nine months and we are seeing fantastic innovation that is going to change the way that we procure, that we use, that we generate energy in this province. So it is an exciting time. I too was blown away by what's happening at Sifton Properties, and I'm sure you and I can compare notes as to many of the places that we've been to and have seen the fantastic technology that's coming in this sector from—again, London Hydro talking about utilizing the data component of the Green Button initiative and how we can actually utilize that to see the algorithms and save energy within our homes.

I know your question was the specifics around the asks that Sifton Properties in West 5 was talking about, and a lot of that is going to be addressed in the LTEP. Our LTEP is talking about the importance of innovation. Some of the things that they were talking about at Sifton were storage and how we can enhance storage with net metering and virtual net metering and all of the components that are happening within this sector. It's a very, very exciting time. You're right; innovation is going to be key as we continue to move forward to see how communities will evolve and will utilize this new technology, will utilize solar and wind—even if it's biomass. There is so much opportunity that's happening out there. The LTEP will focus on that.

In maybe a couple of minutes—I know you'll probably want to get another question in—but a few other things that I think would be important to add.

Mr. Serge Imbrogno: Just building on what the minister is talking about, the minister has introduced changes on the global adjustment for storage specifically. Right now, you're paying when you take the power in and you're paying when you release the power for storage, which makes it uneconomic. We're going to change that so that you're only paying once. That will make storage more economic. Distributed energy resources will be an important theme of the long-term energy plan. We're also looking at ways to reduce regulatory barriers. We've had our LTEP consultations. We've talked to all of the LDCs that want to do more innovation. They've identified barriers—regulatory barriers and other barriers—and so we want to be able to move forward on that.

As part of the long-term energy plan, we'll have OEB and IESO report back on implementation plans, and in those directives, they'll be asked what the barriers are that need to be removed to allow these types of initiatives.

We're also looking at a number of pilot projects. We're looking at metering, third-party virtual net metering. I think we agree that it's an exciting area, and it's something that we want to move forward on.

Mr. Todd Smith: Okay, so will we see movement on virtual net metering, for instance, in some of those pilot projects before the end of the calendar year, or is there a time frame for when we plan to see some of these projects in place, particularly in some of those rural, hard-to-get-to type of communities that would really benefit from this type of a project?

Mr. Serge Imbrogno: I would just say that with the LTEP release, there will be more details. I think on the 26th you'll have a better answer to that.

Mr. Todd Smith: I'm giving you every opportunity to tease the announcement on October 26 here, but you're just not taking the bait.

Hon. Glenn Thibeault: I think it's important to also acknowledge that we made changes. We know microFIT

is ending this year, and we started making changes to legislation to bring forward net metering. That started in July of this year. There will be more in January 2018, with the final changes coming in place in July 2018 as well.

We're recognizing that this sector is evolving. Even with the use of fuels, we're no longer just going to say that it's gasoline. We need to look at ethanol or other products that will go into that sector. I'm not just the minister of electricity, as you're well aware as both of my colleagues here. I'm the Minister of Energy; we have the critics for energy here. We've got to look at all aspects of this, from RNG to having a clean fuel standard, that will really help us continue to move this sector. It's an exciting opportunity for us right now.

The Chair (Ms. Cheri DiNovo): You've got under a minute, Mr. Smith.

Mr. Todd Smith: The thing that we're hearing from those who want to advance this type of technology and take advantage of this technology—what they're telling me is that the regulations are just way behind where they need to be. A lot of it doesn't even have to do with energy; it has to do with other ministries as well. In the case of West 5 and Sifton Properties, where does the water go after it seeps through the porous sidewalk, and interesting things like that. Are we able to speed up the regulatory process?

Hon. Glenn Thibeault: In my last couple of speeches, I've said that it's important to make sure that our regulatory system continues to advance with this sector. It is something that we'll see in the LTEP, and I am working with other ministries to make sure that happens.

The Chair (Ms. Cheri DiNovo): Thank you, Minister. Thank you, all. This committee stands adjourned until tomorrow at 3:45. See you back then.

The committee adjourned at 1800.

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