

Legislative  
Assembly  
of Ontario



Assemblée  
législative  
de l'Ontario

# **STANDING COMMITTEE ON GOVERNMENT AGENCIES**

## **REPORT ON AGENCIES BOARDS AND COMMISSIONS**

**HYDRO ONE**

2<sup>nd</sup> Session, 38<sup>th</sup> Parliament  
55 Elizabeth II

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The Honourable Mike Brown, MPP  
Speaker of the Legislative Assembly

Sir,

Your Standing Committee on Government Agencies has the honour to present its Report and commends it to the House.

Julia Munro, MPP  
Chair of the Committee

Queen's Park  
December 2006

**STANDING COMMITTEE ON GOVERNMENT AGENCIES  
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## INTRODUCTION

Under Standing Order 106(e) the Standing Committee on Government Agencies is given the mandate to review the operation of all agencies, boards and commissions (ABCs) to which the Lieutenant Governor in Council makes some or all of the appointments, and all corporations to which the Crown in right of Ontario is a majority shareholder. The Committee is empowered to make recommendations on such matters as the redundancy of ABCs, their accountability, whether they should be sunsetted and whether their mandate and roles should be revised.

In accordance with its terms of reference, the Committee reviewed Hydro One on 7 September 2006.

Appearing before the Committee from Hydro One were Ms. Rita Burak, Chair; Mr. Tom Parkinson, President and CEO; Mr. Myles D'Arcey, Vice President, Customer Operations; Mr. Tom Goldie, Vice President, Corporate Services; and Mr. Mike Penstone, Director, System Investments.

Six stakeholder groups addressed the Committee. The Ontario Forestry Coalition was represented by Ms. Lynn Peterson, Mayor of Thunder Bay; Ms. Anne Krassilowsky, Mayor of Dryden; and Mr. Mark Holmes, Manager of Public Affairs. The Society of Energy Professionals was represented by Mr. Andrew Müller, President; Mr. Trevor Ogle, Sector Control Supervisor, Ontario Grid Control Centre; and Mr. Hamid Riaz, Senior Engineer, Ontario Grid Control Centre. The Ontario Federation of Agriculture was represented by Ms. Bette Jean Crews, Executive Committee Member, and Mr. Ted Cowan, Researcher. Also addressing the committee were the Environmental Commissioner of Ontario, Mr. Gord Miller; the Association of Major Power Consumers in Ontario, represented by Mr. Adam White, President; and the Electricity Distributors Association, represented by Mr. David Collie.

The Committee wishes to express its appreciation to all the witnesses who appeared before it during its public hearings on this agency.

This report presents the Committee's findings on Hydro One. The Committee urges the Minister responsible for Hydro One to give serious and thoughtful consideration to the Committee's recommendations.

## HYDRO ONE

With the passage of the *Electricity Competition Act, 1998* in October 1998, Hydro One was created as one of the five successor companies to Ontario Hydro, and commenced operations on April 1, 1999.<sup>1</sup> Hydro One owns and operates the province's electrical transmission system<sup>2</sup> and is the largest distribution

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<sup>1</sup> Originally, the Corporation was known as the Ontario Hydro Services Company. On May 1, 2000, it was re-branded as Hydro One Inc.

<sup>2</sup> The transmission system consists of the high voltage wires that connect generation facilities with distribution facilities. Also known as "the grid", it is the infrastructure through which power moves.

company<sup>3</sup> in Ontario. It also generates and distributes power in several remote communities. A non-classified agency, Hydro One was incorporated under the *Business Corporations Act* and operates under the terms of Part IV of the *Electricity Act, 1998*. The Board has responsibilities and powers under a number of other statutes, including the provincial *Ontario Energy Board Act, 1998*, *Environmental Assessment Act* and *Environmental Protection Act*, and the federal *National Energy Board Act*. Hydro One reports to the Minister of Energy, who is the Corporation's sole shareholder.

## **Background**

By the 1990s, Ontario Hydro (a Crown Corporation) had become a vertically integrated monopoly dominating both the generation and transmission of electricity in the province, and also playing a pivotal role in distribution, regulating more than 300 local companies owned by municipalities. During this decade, large utilities across North America, typically monopolies, became subject to scrutiny in an era of public sector down-sizing and privatization.

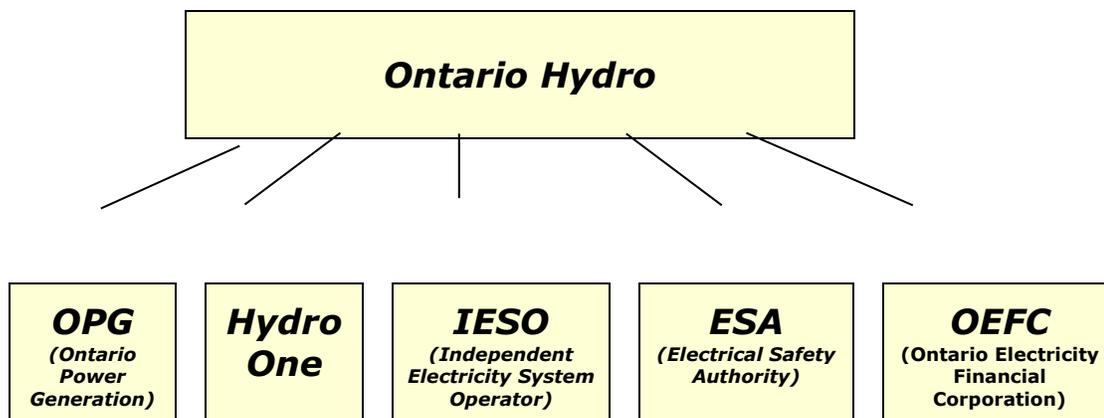
### *The Energy Competition Act, 1998*

In October 1998, Bill 35, the *Electricity Competition Act, 1998* was passed after province-wide public hearings. Providing a framework for competitive markets, the restructuring embodied in the Act included the break-up of Ontario Hydro and the separation of the potentially competitive components of the system (such as generation and retail services) from the more monopolistic elements (such as transmission and distribution). The Act established the Independent Electricity Market Operator and implemented open non-discriminatory access to transmission and distribution facilities.

Ontario Hydro ceased operations on March 31, 1999 and was replaced with five successor companies:

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<sup>3</sup> A distribution system consists of all the facilities and equipment connecting a transmission system to the customer's equipment. It converts electricity from the high voltage transmission lines to a lower voltage to be compatible with the electrical equipment located in homes and industries. Distribution systems include a substation and the lines, poles, and transformers needed to deliver electric power to the customers at the required voltages. In Ontario, local distribution companies are often municipal electric utilities, owned by municipalities.



**Ontario Power Generation (OPG)**, which owns and operates electricity-generating assets.

**Hydro One** (originally the Ontario Hydro Services Company), which owns and is responsible for maintaining the transmission system or “the grid,” and operates Ontario Hydro’s retail energy services (i.e., its distribution assets).

The **Independent Electricity Market Operator (IEMO)**, a non-profit organization responsible for operating the wholesale electricity market and ensuring equitable access to Hydro One’s transmission lines. (In 2004, the IEMO became the Independent Electricity System Operator (IESO), which continues to operate the wholesale electricity market and retains responsibility for short-term forecasting of Ontario’s electricity supply.)

The **Electrical Safety Authority**, a non-profit agency responsible for approving the safety standards for wiring installations, equipment and appliance certification.

The **Ontario Electricity Financial Corporation (OEFC)**, responsible for holding and retiring the debts of the former Ontario Hydro, including the “stranded debt” (that portion of the debt which could not be assigned to the OPG and Hydro One without preventing them from successfully competing in the new marketplace).

## Mandate

Section 48 of the *Electricity Act, 1998* states that the objects of Hydro One, “include, in addition to any other objects, owning and operating transmission systems and distribution systems through one or more subsidiaries.” Section 48.1(1) requires Hydro One to operate generation and distribution systems for communities that are not connected to the IESO-controlled grid, as prescribed, and under restrictions outlined, by regulation.

Hydro One falls under the authority of the Minister of Energy. A Memorandum of Understanding, dated 1999, sets out Hydro One’s responsibilities to the province in its capacity as sole shareholder. Duties are those as are outlined under the *Business Corporations Act*, such as the provision of appropriate and timely information and multi-year business plans.

## Operations

Hydro One is the holding company for four subsidiaries: Hydro One Networks, Hydro One Brampton, Hydro One Remote Communities, and Hydro One Telecom. (A fifth subsidiary, Ontario Hydro Energy Inc., was wound up in December 2002 when its electricity, natural gas and water heater customer contracts were sold to Union Energy.)

### *Hydro One Networks*

Hydro One Networks is the electricity transmission and distribution component of Hydro One, and its largest operating subsidiary. Hydro One Networks owns and maintains 97% of Ontario's electricity transmission system (about 28,600 kilometres of lines, 48,000 towers and more than half a million transformers) that carries high voltage electricity from generating facilities to local utilities (92) and large industrial consumers (113). Hydro One Networks also owns and maintains about one-third of the province's distribution system (123,000 kilometres worth), which brings low voltage electricity to approximately 1.3 million homes and businesses across rural Ontario.

Hydro One also:

- connects homes and businesses to electrical power and maintains that connection;
- restores power in case of outages and emergencies;
- reads meters and calculates charges for billing purposes (for the 1.3 million homes and businesses it directly serves); and
- maintains account records.

The rates charged and services provided by Hydro One Networks are regulated by the Ontario Energy Board.

### *Hydro One Brampton*

Hydro One Brampton distributes electricity in the City of Brampton, which sold its electrical utility to Hydro One in 2001. Customers may purchase electricity directly from Hydro One Brampton or they may choose another electricity retailer.

### *Hydro One Remote Communities*

Hydro One Remote Communities generates and distributes electricity to 18 remote communities across northern Ontario that are not connected to the province's electricity grid.

### *Hydro One Telecom*

Hydro One Telecom markets Hydro One's excess fibre-optic capacity. It provides broadband telecommunications services in Ontario with connections to Montreal and Buffalo, New York.

## Financial Information

**TABLE 1: FIVE-YEAR SUMMARY OF FINANCIAL STATISTICS**

<i>Year ended December 31 (\$ Cdn. in millions)</i>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2003</b>	<b>2001</b>
<b>Statement of operations data</b>					
<b>Revenues</b>					
Transmission	1,310	1,262	1,298	1,317	1,259
Distribution	3,085	2,874	2,734	2,682	2,158
Other	21	17	26	32	49
	4,416	4,153	4,058	4,031	3,466
<b>Costs</b>					
Purchased power	2,131	1,987	1,872	1,858	1,267
Operation, maintenance and administration <sup>1</sup>	792	771	795	832	824
Depreciation and amortization	487	480	454	411	384
	3,410	3,238	3,121	3,101	2,475
Regulatory recovery <sup>2</sup>	-	91	-	-	-
<b>Income before financing charges and provision for payments in lieu of corporate income taxes</b>					
	1,006	1,006	937	930	991
Financing charges	325	331	348	353	350
<b>Income before provision for payments in lieu of corporate income taxes</b>					
	681	675	589	577	641
Provision for payments in lieu of corporate income taxes	198	177	193	233	267
<b>Net income</b>	<b>483</b>	<b>498</b>	<b>396</b>	<b>344</b>	<b>374</b>
<b>Basic and fully diluted earnings per common share</b>					
(Canadian dollars)	4,652	4,798	3,779	3,258	3,562

### NOTES TO TABLE 1:

<sup>1</sup> Operation, maintenance and administration costs for 2002 included a charge of \$25 million for a staff reduction program.

<sup>2</sup> As a result of the oral and written evidence submitted by Hydro One, on December 9, 2004 the OEB issued a ruling, citing prudence, and approving recovery of amounts previously delayed by the *Electricity Pricing, Conservation and Supply Act, 2002*, relating to regulatory deferral account balances sought by Hydro One in its May 31, 2004 submission. Consequently, a one-time regulatory recovery of \$91 million was recorded.

<sup>3</sup> Capital expenditures exclude \$468 million in 2001 associated with acquisitions of LDCs

<sup>4</sup> The net asset coverage on long-term debt ratio is calculated as total assets minus total liabilities excluding long-term debt (including current portion) divided by long-term debt (including current portion).

<sup>5</sup> The earnings coverage ratio has been calculated as the sum of net income, financing charges and provision for payments in lieu of corporate income taxes divided by the sum of financing charges, capitalized interest and cumulative preferred dividends.

(Source: Hydro One **2005 Annual Report**)

**TABLE 2: FIVE-YEAR SUMMARY OF OPERATING STATISTICS**

<i>Year ended December 31 (\$ Cdn. in millions)</i>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2003</b>	<b>2001</b>
<b>Operating Statistics</b>					
Transmission					
Units transmitted (TWh)*	157.0	153.4	151.7	153.2	146.9
Ontario 20-minute system peak demand (MW)*	26,219	25,204	24,849	25,629	25,269
Ontario 60-minute system peak demand (MW)*	26,160	24,979	24,753	25,414	25,239
Total transmission lines (circuit-kilometres)	28,547	28,643	28,621	28,492	28,387
Distribution					
Units distributed to Hydro One customers (TWh)*	29.7	28.5	27.9	27.1	21.3
Units distributed through Hydro One lines (TWh)**	45.6	44.8	44.7	45.1	41.3
Total distribution lines (circuit-kilometres)	122,118	121,736	121,285	120,767	120,448
Customers ('000)	1,274	1,259	1,239	1,220	1,193
Total regular employees	4,189	4,118	3,967	3,933	4,815

\* System related statistics include preliminary figures for December.

\*\* Units distributed through Hydro One lines represent total distribution system requirements and include electricity distributed to consumers who purchased power directly from the IESO. Prior to Open Access in 2002, these consumers purchased power directly from the predecessor of OPG.

(Source: Hydro One **2005 Annual Report**)

## Structure and Organization

Hydro One's Articles of Incorporation state that the Corporation should have a minimum of three and a maximum of fifteen directors, elected by the Minister of Energy. There are presently eleven directors. There are no requirements or limitations on the directorships, other than those imposed by the *Business Corporations Act*, which stipulates that shareholders (i.e., the Province) must elect directors to hold office for terms of up to three years (s. 119(4)).

The Board meets approximately 8 times per year. Six Committees are also in operation: Audit and Finance, Health and Safety, Human Resources and Public Policy, Regulatory and Environment, Corporate Governance, and Information Technology. According to Hydro One, the Board and its Committees have met 89 times since January 1, 2004, and are scheduled to meet an additional 15 times prior to the end of 2006.

The following table provides the name, position, term of appointment, and salary for each of the eleven directors. Committee Chairs also receive an additional \$3,000 per annum and Directors are paid \$900 for each Board and Committee meeting. All appointments are due to expire in December 2006, when the next annual meeting of shareholders (i.e., the Province) is scheduled.

**TABLE 4: THE BOARD OF DIRECTORS**

<b>Board Member (Location)</b>	<b>Position</b>	<b>Term of Appointment</b>	<b>Remuneration</b>
Rita Burak (Toronto)	Chair (Part-Time)	Aug. 15, 2002 – Dec. 30, 2006	\$150,000
Sami Bebawi (Montreal)	Member (Part-Time)	Oct. 8, 2004 – Dec. 30, 2006	\$25,000
Murray J. Elston (Manotick)	Member (Part-Time)	Jun. 11, 2002 – Dec. 30, 2006	\$25,000
Eileen A. Mercier (Toronto)	Member (Part-Time)	Aug. 15, 2002 – Dec. 30, 2006	\$25,000
Walter Murray (Oakville)	Member (Part-Time)	Dec. 30, 2005 – Dec. 30, 2006	\$25,000
Don MacKinnon (Chatsworth)	Member (Part-Time)	Aug. 15, 2002 – Dec. 30, 2006	\$25,000
Kathleen O'Neill (Toronto)	Member (Part-Time)	Jul. 27, 2005 – Dec. 30, 2006	\$25,000
Tom Parkinson (Toronto)	President / CEO	Jul. 11, 2003 – Dec. 30, 2006	\$1,563,261 <sup>4</sup>
Douglas Speers (London)	Member (Part-Time)	Dec. 30, 2005 – Dec. 30, 2006	\$25,000
Kenneth Taylor (New York)	Member (Part-Time)	Aug. 15, 2002 – Dec. 30, 2006	\$25,000
Blake Wallace (Toronto)	Member (Part-Time)	Nov. 22, 2002 – Dec. 30, 2006	\$25,000

## **DISCUSSION AND RECOMMENDATIONS**

### **Opening Remarks**

Hydro One officials were invited to appear before the Committee and to begin their dialogue with Members by making some opening remarks.

Hydro One Chair Rita Burak provided a brief overview of the Corporation, noting that it has over 4,000 employees and nearly \$12 billion in assets. In 2005, the company had total revenues of \$4.4 billion, a net income of \$483 million and paid \$198 million to the province in lieu of corporate taxes. Hydro One's credit rating was recently upgraded to A by Canada's Dominion Bond Rating Service. Standard and Poor's and Moody's have also upgraded Hydro One's credit ratings, to A and AA3 respectively.

Ms. Burak drew attention to three recent projects:

- the Ontario Grid Control Centre, a state-of-the-art operations command centre from which Hydro One monitors its system and responds to its needs. The facility has improved operating efficiency and supply reliability and was completed on time to a budget of \$118 million.
- the Parkway transformer station, which ensures reliable electricity supply to customers in the northern GTA. This project enabled the closure of the Lakeview coal generating station and was also completed on time and on budget (\$140 million).
- the downtown Toronto cable project, which will reinforce the connection between the east and west sides of the downtown core. The project is

<sup>4</sup> Plus taxable benefits of approximately \$42,000.

currently under construction and has a projected cost of \$45 million and planned in-service date of late 2007.

Furthermore, since 2002, the company has spent over \$5.5 billion to ensure reliability of the transmission and distribution system, permitting it to withstand a recent all-time peak in electricity use.

Finally, Hydro One reported that it has achieved good results in customer satisfaction since 2002. Large customer satisfaction increased from 42% in that year to 91% in 2006. Mid-size customer satisfaction over the same period increased from 58% to 74%. Residential customer satisfaction has remained in the 80% range.

## **Human Resource and Personnel Issues**

### *Health and Safety*

At the request of the Committee, Mr. Parkinson outlined Hydro One's efforts to improve its health and safety record. According to Mr. Parkinson, Hydro One's Board of Directors declared health and safety to be the company's number one priority in 2002. A two-phase program was initiated. The objective of the first phase, met in 2004, was to move Hydro One into the top quartile of Canadian utilities on measures such as lost-time injuries (injuries resulting in an employee's absence from the workplace), injury duration, and serious or potentially fatal injuries. The objective of the second phase was to eliminate lost-time injuries. Mr. Parkinson indicated that the original target date for the second phase, 2006, would not be met but that the company has made dramatic improvements.

The Committee presented information suggesting that the Ministry of Labour has placed Hydro One in the top 2% of its high-risk firms because of Workplace Safety and Insurance Board data relating to claim costs and the frequency and severity of injuries suffered. Mr. Parkinson verified that this information was accurate, and maintained that the Ministry has made a mistake in its categorization. Hydro officials also indicated that only one employee has died on the job in the last several years [Hydro One's 2005 *Annual Report* indicates that an employee was killed in April 2005; earlier reports show that another employee died in 2000]. Hydro One is presently in discussions with the Ministry to clarify this matter.

The Committee learned that the Canadian Electricity Association (CEA), of which Hydro One is a member, evaluates and ranks the safety record of electricity utilities using three statistics:

- lost-time injury frequency (number of lost-time injuries per 200,000 hours worked);
- lost-time injury severity (number of days lost per 200,000 hours worked, a statistic that captures the seriousness of lost-time incidents); and
- all-injury frequency (a broader category that measures the total number of fatalities, disabling injuries and all other incidents for which a medical

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practitioner was required to render services beyond first aid, per 200,000 hours worked).<sup>5</sup>

As noted above, Hydro One has chosen to emphasize the first two measures. Hydro One indicates that it now ranks in the top quartile of CEA utilities on lost-time frequency and the severity rates of accidents. However, while Hydro One is trying to reduce the incidence of serious or potentially fatal accidents, it does not rank in the top quartile of CEA utilities on the third measure, all-injury frequency.

The Committee also learned that Hydro One formerly published detailed information about its accident record in an annual report devoted to environmental and health and safety issues. Other utilities such as B.C. Hydro continue to publish similar information on a regular basis.

In response to requests by the Committee, Hydro One provided further information regarding its safety record. The utility indicates that it has implemented several programs and practices to improve safety performance, including:

- increasing the field presence of supervisors;
- ensuring clear and consistent standards for work performance;
- improving safety communications;
- increasing understanding of the human decision-making process to improve performance;
- inspections of work sites;
- safety rotation/mentoring programs; and
- improving incident investigation.

Hydro One also provided statistics pertaining to its health and safety record over the past several years. However, because of changes in the method of calculating these figures, it is difficult to determine if any overall trends are evident. Prior to 2005, as a member of the CEA, Hydro One was required to automatically assign 6,000 “days lost” for any permanent total disability, including fatalities. Hydro One was also required to assign a fixed number of days lost, varying depending on the injury in question, for permanent disabilities such as amputations or hearing loss. In 2005, these requirements were dropped. Members of the CEA now need only report the actual number of days lost in the case of these injuries. Fatalities, as such, no longer result in any days lost.

Bearing this caveat in mind, Hydro One’s statistics do reveal a decrease in “lost time incidents” and “days lost” in the past several years. However, the utility has had a relatively stable number of “all reported incidents” since 2000, a category that covers serious as well as non-serious incidents. The utility has also had a

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<sup>5</sup> Canadian Electricity Authority, “CEA 2005 Safety Incident Statistics Executive Summary Report,” September 2006.

fluctuating rate of “high maximum reasonable potential for harm” incidents, a category encompassing more serious accidents and injuries.

The Ministry of Labour has confirmed that Hydro One is on the province’s list of high-risk firms.<sup>6</sup> The Workplace Safety and Insurance Board indicates that the dispute surrounding Hydro One’s safety record stems from differing ways of measuring the severity of injuries.<sup>7</sup> Hydro One alleges that the WSIB is wrongly assigning days lost to injuries for which no days were lost. The WSIB and the Ministry respond that Hydro One’s placement on the high-risk list is not affected by any calculation of days lost, but rather depends on the cost of claims, and are confident that their ranking of Hydro One is accurate.

The Committee therefore recommends that:

1. **Hydro One clarify the nature of the discrepancy between its health and safety statistics and those used by the Ministry of Labour and the Workplace Safety and Insurance Board.**
2. **Hydro One publish regularly the complete health and safety statistics it reports to the Canadian Electricity Association, including any available information about how Hydro One ranks in relation to other utilities on all measures.**
3. **Hydro One take steps to improve its safety performance.**

### *Skilled Labour Shortages*

Hydro One informed the Committee that the company would be facing a shortage of skilled technical staff in the next few years. Although this is apparently an industry-wide problem, officials also blamed the situation on limited hiring in the past 10 to 15 years combined with a voluntary retirement program that had depleted the skilled labour pool. Furthermore, because of the previous periods of limited hiring, Ontario’s universities and colleges are no longer offering programs related to Hydro’s needs.

Hydro One indicated that it has established an apprentice program and now has approximately 400 apprentices in its system. Hydro One is also interested in developing partnerships with colleges and universities so that it can re-establish appropriate training programs in these institutions. Officials at Hydro One are involved with the Electricity Sector Council which is working with colleges and universities across the country as well as other organizations to establish apprenticeship and training programs.

At the same time, in information provided to the Committee following the hearings, Hydro One acknowledged that it is not offering permanent positions to university graduates as of 2006. Citing the “present compensation plan” as a factor influencing its decision, the utility indicates that it will review the situation on a year-to-year basis.

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<sup>6</sup> Telephone conversation with Manager, Strategic Planning and Transformation, Ministry of Labour, at (416) 326-9615 on 14 November 2006.

<sup>7</sup> Telephone conversation with Acting Vice President, Prevention, Workplace Safety and Insurance Board at (416) 344-2600 on 8 November 2006.

The Society of Energy Professionals contends that part of the reason for the shortage of technical workers at Hydro One is because the organization has engaged in a hiring freeze of new Society employees and has failed to utilize the skills of existing Society employees appropriately since the strike in 2005. Furthermore, the Society contends that Hydro One's decision to hire new graduates strictly on a contract basis is counterproductive given the skills shortage facing the industry, and has resulted in the loss of several skilled individuals to other organizations.

The Society also alleges that the shortage in technical workers has forced Hydro One to rely on costly contract employees. Mr. Parkinson maintains that there were 750 Society members when he became CEO in 2002 and that that number rose to the high 800s in 2005. The Society counters that there were 1,032 members employed at Hydro One prior to the 2005 strike and that there are now only 781. Information provided by Hydro One indicates that 16% of all employees were "non-regular" or temporary in 2002, while 23% were in this category in 2005.

There is some debate about whether Hydro One is presently facing a shortage of skilled workers, or will be in such a predicament in the near future. During the Committee hearings, Hydro One stated that the impact of the skills shortage would be felt in several years. However, Hydro One also revealed that it did not presently have enough engineers to accelerate the implementation of the standard offer contract, indicating that there were only a limited number of people within the company and province with the necessary skills.

The Society of Engineering Professionals maintains that the skills shortage is affecting Hydro One at the present time. In its post-hearing submissions, the Society alleged that, aside from a few high profile projects, "the bulk of projects at Hydro One are being neglected due to a shortage of human resources throughout the company...." The Society provided numerous examples of projects that it contends are significantly delayed.

The Committee therefore recommends that:

4. **Hydro One continue to collaborate with colleges and universities in Ontario and elsewhere in Canada to establish training and education programs suited to Hydro One's needs within the next one to three years, while addressing the human resource shortage in the energy sector, particularly in the areas of succession planning, recruiting, mentoring, training, and maintaining the company's existing complement of skilled technical workers.**

### *Labour Relations*

In 2005, a strike by the Society of Energy Professionals, the bargaining agent representing engineers, scientists, accountants and information technology professionals working at Hydro One, lasted 105 days. Representatives of the Society made it clear to the Committee that although the strike may have been settled, the relationship between the Society and the management of Hydro One remains acrimonious. The Society has filed an application with the Ontario Labour Relations Board (OLRB) under Section 96 (Unfair Labour Practice) of the *Labour Relations Act*, 1995.

Hydro One officials responded to the Committee that although its relationship with the Society was “sensitive,” it has an excellent relationship with its other bargaining unit partners, including the Power Workers Union. Hydro One added that it looks forward to sorting out its relationship issues with the Society at the OLRB. The Society of Engineering Professionals also pointed out that it has bargained successfully with all of its other employer partners. The documents presented to the Committee by both Hydro One and the Society of Engineering Professionals appear to reveal the existence of lingering labour relations issues.

The Committee therefore recommends that:

5. **The Minister review the human resources management issues at Hydro One.**
6. **Hydro One be strongly encouraged to promote healthy labour relations and to improve employee morale at the organization so that management and employees can focus on the business of planning and carrying out the safe and efficient delivery of electricity to the public.**

#### *Executive Compensation*

The Committee repeatedly questioned Hydro One officials about the compensation awarded to Mr. Parkinson and other members of the senior management team. Members were concerned about the apparently large increases in these salaries over the past several years and the discrepancy between Hydro salaries and those awarded in other Canadian utilities of comparable size.

Hydro One officials responded that they take the issue of executive compensation very seriously. Since 2002, Hydro One has reduced management pension benefits and eliminated its long-term incentive program. A human resources and public policy committee recommends base salary and short-term incentives. The Board and committee also receive independent advice from external consultants to determine the appropriate salary range. Salaries for Mr. Parkinson and other members of senior management were calculated using the Hay system, using a category called “all industrial” that enables comparisons to a long list of businesses of similar size and scope.

The Committee expressed concern about this basis of comparison. The Society of Energy Professionals presented information related to compensation levels at comparable Canadian utilities, indicating that Mr. Parkinson’s compensation was considerably higher than the salaries for other CEOs.

The Committee therefore recommends that:

7. **The Board re-visit the issue of corporate compensation on the basis of a more appropriate comparator group, considering Hydro One’s status as a utility and a publicly owned corporation.**

#### *Helicopter Use*

The Committee asked various questions around the use of Hydro One’s corporate helicopters. The Committee wanted to know the following:

- under what circumstances a corporate helicopter can be used;
- whether a log of passenger names is maintained; and
- whether family members can fly with employees.

Hydro One officials clarified that use of company helicopters is confined to work-related business. It has been a long-standing practice to maintain a log listing the number of passengers, but not their names. Family members may fly with employees only under exceptional circumstances, where no practical alternative exists.

In response to the Committee's request for further information, Hydro One reports that it does not have a specific corporate policy related to helicopter use. Rather, the utility has a "long-standing set of practices" that comply with all Transport Canada aeronautics regulations. Each flight is recorded on a Hydro One Flight report which states the helicopter registration, date, pilot, destination, number of passengers, and takeoff and landing times. This information is recorded in the helicopter journey log book that tracks the total airframe time in hours and minutes.

The Committee therefore recommends that:

8. **Hydro One develop a corporate policy on helicopter use, which shall include maintaining a log listing the names of all individuals using Hydro One helicopters and the purpose of the trip.**

## **Service Delivery Issues**

### *Transmission Investments*

The Electricity Distributors Association (EDA) represents Ontario's 85 local distribution companies (LDCs). On the one hand, the EDA represents an important group of Hydro One customers, served by Hydro One's network of high voltage transmission lines; on the other hand as the largest distribution company in the province, Hydro One is a member of the EDA, and holds one seat on its Board of Directors.

The EDA spoke to the Committee about Hydro One's need to address aging transmission assets and make significant capital investments in order to maintain system reliability and address load growth, generation connection requirements, and transmission congestion.

The Committee therefore recommends that:

9. **Hydro One's need to make significant capital investments to expand its system capabilities not be deferred, but recognized and built into future plans.**

The EDA also spoke about the importance of obtaining timely regulatory approval for new projects, which Hydro One and some of the other stakeholders have noted has become more complicated now that the Ontario Power Authority and the Independent Electricity System Operator (IESO) have a role in transmission planning.

The Committee therefore recommends that:

10. **Hydro One outline to the Committee measures that would ensure timely project approvals and undertakings, in the best interest of the province and ratepayers.**

The cost of capital is also a concern for the EDA and its members (including Hydro One); a recent proposal by the Ontario Energy Board for determining the overall cost of capital for LDCs was criticized for reducing the rate of return, and using a one-size-fits-all approach for all utilities. In addition, mandatory requirements such as the smart meter initiative impose further costs on the LDCs. The Association made two suggestions:

- (a) that a more flexible approach be taken to the determination of the capital structure and determination of the rate of return on equity for utilities, recognizing that all utilities need and are entitled to a reasonable rate of return; and
- (b) that a regulatory environment be provided that allows access to financing at reasonable rates for all utilities.

The Committee was told also that the complexity of the regulatory environment is problematic and that there is a need for clearer accountability with respect to roles and responsibilities. A specific issue concerns the requirement by the OEB that long-term load transfers be wound up, by utilities either building facilities out to the customers involved, or selling those customers to their neighbouring utility. At present, one half of the 5,000 long-term load transfers in the province involve Hydro One. A ministerial directive that prohibits Hydro One from buying or selling assets makes meeting the OEB requirement problematic. Representatives of the LDCs suggested that the Ministry should clarify its directive that currently prevents Hydro One from buying or selling assets, in such a way that the long-term load transfers in which Hydro One is a partner may be resolved, consistent with the requirement of the OEB.

### *Conservation Initiatives*

Conservation, or what is sometimes called 'demand management,' has become a central component of the government's energy policy. In its opening statement officials emphasized Hydro One's commitment to playing its part in conservation, and noted the following initiatives launched over the last few years:

- fridge and air conditioner buybacks;
- farm and small business energy audits and retrofits;
- low-income and aboriginal energy efficiency programs;
- load control; and
- real-time energy cost monitors.

Asked to elaborate on conservation initiatives, officials indicated that Hydro One has allocated \$40 million towards conservation (note: this represents a commitment of less than 1% of total revenue) and by the end of July has spent

\$8 million. Officials indicated that to date 8 million kilowatt hours have been saved, “about enough for 700 homes for one year, so we’re off to a very good start.” (Committee *Hansard*, 7 September 2006, A-278) Mr. Parkinson went on to note that total savings would be “enough electricity to power 100,000 homes by the time we’ve spent all of the money that we have allocated to conservation.” (A-278) Considering these figures in more detail reveals that

- the first 20% of the conservation budget has achieved less than 1% of the target: \$8 million has saved enough electricity for 700 homes, leaving \$32 million to realize the remaining target of 99,300 homes; and
- Hydro One has spent \$8 million in the first seven months of 2006, and will spend the remaining \$32 million in 5 months.

Asked by the Committee about the effectiveness of Hydro One’s conservation initiatives, Ontario’s Environmental Commissioner observed that it seemed to consist of “well-intentioned, positive plans... [but] seemed to be a little short on mechanisms, a metric to measure success. We didn’t see that.” (A-296)

The Committee therefore recommends that:

11. **Hydro One report back to the Committee on its conservation initiatives and on the evaluation and measurement techniques used to determine their cost-effectiveness.**

### *Load Shifting*

Closely related to conservation (i.e., using less power) is shifting consumption from peak to off-peak periods. This is the rationale for the government’s “smart meter” initiative, to be accompanied by interval pricing. Representatives of major power consumers (mostly large manufacturing and natural resource processing industrial users) expressed an interest in Hydro One’s upcoming submission to the Ontario Energy Board (OEB) for transmission rates, and in particular, in changes to the tariff structure for industrial users and business consumers that might allow them to shift usage from peak to off-peak times. At present, the Committee was told, the bulk of the charges to these consumers is based on either peak demand at the time of system peak or peak demand that is non-coincident with the time of system peak. While this gives Hydro One some revenue certainty, it does not provide a clear incentive for these customers to shift demand to off-peak usage. Industrial users and business consumers believe that the OEB should be directed to develop a tariff structure for Hydro One’s transmission rates that would provide them with a clear incentive to shift usage from peak to off-peak times.

Representatives of major power users also raised the idea that conservation initiatives that take industrial assets and capital stock out of production are not necessarily conducive to the economic health of the Province.

The Committee therefore recommends that:

12. **Hydro One examine and report back on the design of conservation initiatives that take into account the distinction between electricity usage that is economically productive (i.e., adding value) and that**

**which is non-productive consumption and the feasibility of targeting initiatives toward reducing the latter.**

### *Soft versus Hard Grids*

Ontario's Environmental Commissioner spoke to the Committee about the difference between hard-path energy systems, which rely on centralized, large-scale, capital-intensive technologies, and soft-path systems, that pursue conservation, small-scale distributed generation, and renewable energy applications. Ontario's legacy, and Hydro One's assets are hard-path, reflecting the technology of the 20<sup>th</sup> century. As new technologies have been or are being developed to make possible a system which, in the words of the Commissioner "is softer and smarter, one that lowers resistance, one that slows energy, one that shaves peaks," there is no advocate or voice within Hydro One, he suggested, to promote soft-path ideas.

The Committee therefore recommends that:

- 13. Hydro One report back on the potential to develop distributed energy options and on the costs associated with those activities.**

### *Standard Offer Contract*

In March of this year, the government brought in a Standard Offer contract that allows small scale generators (up to 10 megawatts) of renewable power to connect to the grid and sell power to the province at a standard price for 20 years. Bringing on-line an unlimited number of small-scale renewable generation projects creates a system of distributed generation. The Environmental Commissioner noted that his office receives a number of complaints relating to the ability of renewable generators to access the hydro grid. Where upgrades are necessary in order to facilitate renewable access, current policy is to levy generator hook-up charges. The Commissioner suggested a different model, in which the grid system, like a transportation system, is a public good: providing the ability to maximize the opportunities for renewable energy generation is for the long-term good of the public.

The Committee therefore recommends that:

- 14. Hydro One work with the Ontario Energy Board to examine the feasibility and expense of recovering the cost of upgrades to the transmission system that facilitate renewable access through system charges, rather than by generator hook-up charges.**

Hydro One officials told the Committee that prior to the introduction of the Standard Offer program, requests for distributor generation contracts were minimal and one staff person was allocated to deal with them. Since March there have been more than 400 requests, and there is a six months' backlog in processing these requests, despite a tenfold increase in the resources devoted to this area.

The Committee therefore recommends that:

- 15. Hydro One consider ways of streamlining the processing of requests related to the standard offer program and examine the**

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**feasibility and cost of adding more resources for the processing of standard offer requests.**

*Service to the Agricultural Community*

Representatives of Ontario's agricultural community told the Committee that power use on farms amounts to about 4% of total provincial consumption, and that farm customers comprise more than 10% of Hydro One's distribution revenue base. They also told the Committee that "Hydro One has become more customer-oriented, more open and transparent, and in several important ways has changed to better integrate the views of its customers." (A-307) On the other hand, Hydro One does not have a farm account representative to ensure that service to farmers is at the highest possible standard and to arrange service upgrades.

The Committee therefore recommends that:

16. **Hydro One provide a 1-800 line for farmers and rural residents to connect with service representatives who are familiar with farm and rural electricity issues.**

Farm representatives also expressed concern about line losses, suggesting that Hydro One's 9% estimate has never been accurately verified. They also told the Committee that it should be possible to reduce losses to 5%, even if this requires a short-term investment that would pay off over the longer term. A proposal to allow private suppliers to provide some types of service when Hydro One's own crews are backlogged with other maintenance and repairs was presented, with a similar system proposed for electrical safety inspections. Concerns were also raised about stray voltage, about demand charges for farms and businesses, and the need to add three phase lines so that farms can send power to the cities as well as draw it from large power plants.

The Committee therefore recommends that:

17. **Hydro One be encouraged to include the needs of Ontario's farm and rural business sector in its forward planning, as well as the future capacity of Ontario farms as an important source of renewable energy.**

*Planning for Climate Change*

The Environmental Commissioner presented data that since September 2005 Ontario has experienced six severe storms with a total loss of service of 683,000 customers; the three storms in 2006 averaged 140,000 customers with lost service. The Commissioner suggested that these severe weather incidents are one of the effects of climate change, and that they are likely to occur in the future. He also reminded the Committee of two other likely effects of a warmer climate that Ontario has, as yet, been spared: namely, a severe drought, that might reduce hydro-electric generating capacity, and large forest fires, which could damage northern transmission lines. In the Environmental Commissioner's view, Hydro One is not doing enough planning to accommodate the effects of climate change.

The Committee therefore recommends that:

18. **Hydro One develop a strategy for adapting to climate change in order to increase the reliability of the system by taking proactive measures in anticipation of future problems.**

*Caledonia Work Stoppage*

One of Hydro One's transmission upgrades was a project in Caledonia, where a 115 kV line was replaced with a 230 kV line, in order to enable Hydro One to bring across an additional 800 megawatts of power from New York. This work was originally planned to be complete in time for the summer peak of 2006, but well-publicized events in the community led to work being suspended with six weeks of work left to complete the project. Asked about the urgency of completing this project, officials indicated that reconfiguring the system had enabled Hydro One to handle the record peak demand in August without that line in service, and that the pressure is now off until next summer. If, for some reason, the project is still in abeyance next summer, Hydro One has made contingency plans to make the same arrangements it made this year. Asked about damage to Hydro One property in Caledonia, officials indicated that all damage has been repaired, Hydro One security has been increased, and all facilities in that region are operating properly.

*Hydro One's Role in Forestry Industry Cost Reduction*

Within the past year or so, a series of bad news announcements has hit Northern Ontario as various forestry companies have announced closures or significant cutbacks. To date, an estimated 8,000 direct jobs and untold indirect employment have been lost. The Committee was told by stakeholders that one of the factors in this crisis for Ontario's forestry industry has been the 60% increase in the cost of electricity since 2001. The average current industrial "total delivered electricity cost" is \$70 a megawatt hour. A proposal, first put forward by the Ontario Forestry Coalition in April 2006, calls for a \$45 per megawatt hour "all-in" delivered electricity price for the industrial sector.

Asked about whether it has been working with forestry companies to try to reduce their costs, Hydro One replied that its approach has been to try to contain any increases in its rates. (An increase to its distribution rates that will average 6% on the total bill was approved earlier this year. A hearing before the OEB on Hydro One's transmission rates is upcoming; officials did not indicate what increase the Corporation is seeking.) In addition, officials noted, Hydro One offers energy efficiency audits. Hydro One officials also noted that any decision on electricity pricing, whether it be regional pricing, or regulated industrial rates, is a policy matter for the Ontario Energy Board. The Committee heard from representatives of the large power users that transmission costs account for about 7% of the delivered cost of electricity.

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## **SUMMARY OF RECOMMENDATIONS**

The Committee recommends that:

1. **Hydro One clarify the nature of the discrepancy between its health and safety statistics and those used by the Ministry of Labour and the Workplace Safety and Insurance Board.**
2. **Hydro One publish regularly the complete health and safety statistics that it reports to the Canadian Electricity Association, including any available information about how Hydro One ranks in relation to other utilities on all measures.**
3. **Hydro One take steps to improve its safety performance.**
4. **Hydro One continue to collaborate with colleges and universities in Ontario and elsewhere in Canada to establish training and education programs suited to Hydro One's needs within the next one to three years, while addressing the human resource shortage in the energy sector, particularly in the areas of succession planning, recruiting, mentoring, training, and maintaining the company's existing complement of skilled technical workers.**
5. **The Minister review the human resources management issues at Hydro One.**
6. **Hydro One be strongly encouraged to promote healthy labour relations and to improve employee morale at the organization so that management and employees can focus on the business of planning and carrying out the safe and efficient delivery of electricity to the public.**
7. **The Board re-visit the issue of corporate compensation on the basis of a more appropriate comparator group, considering Hydro One's status as a utility and a publicly owned corporation.**
8. **Hydro One develop a corporate policy on helicopter use, which shall include maintaining a log listing the names of all individuals using Hydro One helicopters and the purpose of the trip.**
9. **Hydro One's need to make significant capital investments to expand its system capabilities not be deferred, but recognized and built into future plans.**
10. **Hydro One outline to the Committee measures that would ensure timely project approvals and undertakings, in the best interest of the province and ratepayers.**
11. **Hydro One report back to the Committee on its conservation initiatives and on the evaluation and measurement techniques used to determine their cost-effectiveness.**
12. **Hydro One examine and report back on the design of conservation initiatives that take into account the distinction between electricity**

usage that is economically productive (i.e., adding value) and that which is non-productive consumption and the feasibility of targeting initiatives toward reducing the latter.

13. **Hydro One report back on the potential to develop distributed energy options and on the costs associated with those activities.**
14. **Hydro One work with the Ontario Energy Board to examine the feasibility and expense of recovering the cost of upgrades to the transmission system that facilitate renewable access through system charges, rather than by generator hook-up charges.**
15. **Hydro One consider ways of streamlining the processing of requests related to the standard offer program and examine the feasibility and cost of adding more resources for the processing of standard offer requests.**
16. **Hydro One provide a 1-800 line for farmers and rural residents to connect with service representatives who are familiar with farm and rural electricity issues.**
17. **Hydro One be encouraged to include the needs of Ontario's farm and rural business sector in its forward planning, as well as the future capacity of Ontario farms as an important source of renewable energy.**
18. **Hydro One develop a strategy for adapting to climate change in order to increase the reliability of the system by taking proactive measures in anticipation of future problems.**