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**Tuesday 24 August 2004**

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des débats  
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**Mardi 24 août 2004**

**Standing committee on  
social policy**

Electricity Restructuring  
Act, 2004

**Comité permanent de  
la politique sociale**

Loi de 2004 sur la restructuration  
du secteur de l'électricité

Chair: Jeff Leal  
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ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

**STANDING COMMITTEE ON  
SOCIAL POLICY**

**COMITÉ PERMANENT DE  
LA POLITIQUE SOCIALE**

Tuesday 24 August 2004

Mardi 24 août 2004

*The committee met at 0900 in room 228.*

**ELECTRICITY  
RESTRUCTURING ACT, 2004  
LOI DE 2004 SUR LA RESTRUCTURATION  
DU SECTEUR DE L'ÉLECTRICITÉ**

Consideration of Bill 100, An Act to amend the Electricity Act, 1998 and the Ontario Energy Board Act, 1998 and to make consequential amendments to other Acts / Projet de loi 100, Loi modifiant la Loi de 1998 sur l'électricité, la Loi de 1998 sur la Commission de l'énergie de l'Ontario et apportant des modifications corrélatives à d'autres lois.

**RICK COATES**

**The Chair (Mr Jeff Leal):** Good morning, everyone. I'd like to welcome you to the standing committee on social policy. We're reviewing Bill 100, the Electricity Restructuring Act, 2004.

I would ask Mr Coates to commence his presentation. You have 15 minutes. Any time you don't use will be available for members of the committee to ask questions. Welcome.

**Mr Rick Coates:** Ladies and gentlemen, my name is Rick Coates. I'm a technical officer with the Independent Electricity Market Operator and also the Society local vice-president for the IMO. I've been in the electricity industry for over 27 years. During that time, I've been involved with the operation of Ontario's generation and transmission assets in various locations. This experience has given me a unique insight into Ontario's electricity industry.

Although there are many aspects of the industry that need to be addressed, I have come here today to talk about the future of coal-fired generation in Ontario. The Ontario government has stated that it will be phasing out coal-based generation by 2007. I hope to explain that this is not a feasible goal and that there are better alternatives to pursue.

What do we have now in coal-fired generation? Ontario has about 30,850 megawatts of available generation capacity. The portion supplied from coal-fired generation amounts to more than 7,500 megawatts; in other words, about 25% of Ontario's generating assets.

Coal generation has a high capacity factor. This means it is available to generate more often than many other generation sources due to the availability of the fuel and maintenance cycles. Coal generation has the ability to follow load. This is a necessary feature in a power system such as Ontario's, since other types of generation, such as nuclear, some hydroelectric and wind, are not suited to this. Coal-generated electricity production costs are lower than any other sources of electricity, save hydro, wind or solar.

Ontario's coal generation represents billions of dollars in assets. Ontario's coal generation is in the right place. The transmission system is, by and large, adequately built to take advantage of this generation without extra cost. This type of generation is inexpensive and employs about 1,400 people across Ontario, since it is a relatively labour-intensive way to generate. This means good-paying jobs in Ontario that help spur the economy in the province.

These generating stations are already built. They are here right now and will benefit the economy for years to come at lower costs. The production costs in US cents per kilowatt hour of generation by fuel source, as calculated by the Nuclear Energy Institute in 2002 are as follows: nuclear, 1.71; coal, 1.85; natural gas, 4.06; oil, 4.41. The market prices in Canadian cents per kilowatt hour of generation by fuel source are indicated by figure 5.G, "Price Setting Fuel in Ontario," from the Electricity Conservation and Supply Task Force paper, as follows: nuclear was unavailable since nuclear does not set the price in the IMO market; coal, 3.38; gas, 7.64; and oil, 8.00.

With this, there would be an annual extra fuel cost of \$1.6 billion if gas were used to replace coal. These calculations use task force paper prices, as stated above, and the IMO-published 2003-04 annual energy use of 151.47 terawatts. To put this sum in perspective, the difference, if present coal stations were left in service, would build 950 megawatts of clean coal generation or 2,300 megawatts of natural gas generation per year, or it would be a \$130 saving for every man, woman and child in Ontario per year if the present coal stations are allowed to generate past 2007.

It is apparent from these costs, prices and calculations that coal is necessary to keep prices reasonable in Ontario and to keep Ontario's economy competitive. This is particularly true when we reflect that the US intends to

leave its present coal fleet in service and is pursuing new generation that will in part be fuelled by coal.

There is a belief that coal-fired generation is a huge contributor to our smog and resultant health problems. Let's put this in perspective. It is stated in Environment Canada's greenhouse gas information for 2001—the latest published figures in database form—that about 20% of Ontario's production of gases is from electricity and heat generation. With this data, it is apparent that electricity is hardly the one and only culprit polluting our province. It is also apparent from historical smog data that much of our pollution comes from across the border. This means that our coal plants contribute significantly less than 20% of the total smog in Ontario. Coal is hardly the only contributor to smog in Ontario. Coal-generated smog is a problem that we should plan on phasing out over a longer period of time than three years.

Now I'm going to talk about the individual facilities.

**The Lakeview facility:** The 1,140-megawatt Lakeview facility is scheduled to be closed by April 1, 2005. This is the last of two generating facilities that have existed during recent times in the Toronto core.

Allow me to outline why this is significant. There has been, there is and there will be challenges in moving electricity into Toronto. There's a lack of transmission and inadequate equipment that are placing Toronto in a precarious supply situation without improvements.

One obvious answer is to have reliable generation where the load is. The Lakeview site is already in the right location. There are significant transmission system upgrades planned to alleviate the thermal and voltage support problems that will be left when Lakeview is shut down. These expenditures come from taxpayers' pockets. This money would be better spent on other transmission system improvements needed in Toronto and throughout the province. It is also underscored in many reports and illustrated by Ontario's shortages in the recent past that we need more generation than is presently installed.

Therefore, the Lakeview site should be redeveloped so that generation is close to the load and transmission construction money can be better utilized. The four generators still operating at Lakeview should be kept in service while this new generation is being developed. The new generation should be suitable to be used as baseload generation in order to support the Toronto load on a continuing basis.

There are a couple of reasonable choices for this, as follows: gas cogeneration and clean coal generation. Gas has a high fuel cost and, therefore, is expensive as a baseload generator. Gas generation can become competitive if there are industrial, commercial or residential uses for the waste heat. Gas generation also has the advantage of lower building costs when compared to coal. Gas generating stations also have a small footprint. This would be an advantage, since Lakeview is in a city location. Gas prices are expected to rise in real terms over the next 20 years.

**Clean coal generation:** Coal fuel costs are relatively low and can run competitively as a baseload generator.

Coal-fuelled generation would become even cheaper if the waste heat was used for industrial, commercial or residential processes. Coal generation has the disadvantage, when compared to gas, of higher building costs. Coal generating stations have a larger footprint, since coal storage and transportation take room to accommodate. This would not allow the city to take advantage of the potential park and development lands that are currently occupied by OPG. Coal prices are expected to be stable in real terms over the next 20 years.

**The Nanticoke facility:** There are economic and logistical reasons to leave Nanticoke in service while rehabilitating and refitting these units on an ongoing basis. The Nanticoke facility has eight generators that produce 500 megawatts each. The generation is well placed in the transmission system. There are no barriers to transporting this generation to the load centres. This means that new transmission would not have to be built to accommodate 4,000 megawatts of generation if Nanticoke is left in service.

Nanticoke stabilizes the system and allows Bruce nuclear generation to reach load centres in the GTA. More transmission from the Bruce development would have to be built and/or more risk to Ontario's power system would have to be accepted if Nanticoke were shutdown.

#### **0910**

It helps alleviate a voltage decline limit between London and the Michigan border. The generation available from Brighton Beach, TransAlta, Lambton, Michigan and other generation sources in the area would often be stranded west of London if Nanticoke were not in service. If Nanticoke were shut down, transmission lines and voltage support devices would have to be put in place to overcome this limitation. Shutting down Nanticoke would strand Niagara generation and New York imports more often. The Queenston flow west thermal limit would often be limiting to Beck and other area generation sources without more transmission being built.

Two of the Nanticoke generators have been refitted to remove most of the nitrous oxide and sulphur dioxide before it goes up the stack. These measures have brought these units within present and scheduled future environmental standards.

Shutting down Nanticoke would cost taxpayers untold money in replacement generation, upgrades in the transmission system and improvements to the control systems.

**The Lambton facility:** The Lambton facility consists of four 500-megawatt units. Two of these units have been refitted to meet environmental standards. With an environmental refit to the other two units and ongoing upgrades, these units could provide relatively clean and economic power to Ontario in the near and mid-term. Due to their border location, these units could also economically export into Michigan to provide power to the Detroit and Chicago areas. This would be beneficial to Ontario's economy.

**The Thunder Bay and Atikokan facilities:** Northwestern Ontario is an area that is not well connected with

the rest of Ontario. This creates a question of sustainability of supply in the northwest. The hydroelectric resources in this area are inadequate by themselves, due to the lack of capacity and uncertainty of energy supplies. This leaves fossil-fired generation to make up the difference when loads are high and hydro energy reserves are low. Alternatives to these coal plants would be the construction of new transmission into the area or new generation. Either of these replacements would be very expensive.

How does coal-fired generation fit into our future? As we progress from a carbon-based economy, there has to be a feasible, economic plan to integrate and eventually phase out all carbon-based generation in Ontario. This leaves conservation and noncarbon-based generation, such as wind, nuclear, geothermal, small hydro and solar, as the future sources of power in Ontario.

During this time of transition, carbon-based energy sources should be used to supply peak power and fill the gaps when energy sources such as wind cannot. If we progress to a noncarbon-based economy over a longer period of time, there is a higher probability that transmission improvements and new generation can be built without damaging Ontario's economic future.

A longer term before shutting down the present coal-based generation will alleviate the need to build too much new carbon-based generation. This will help us avoid excessive capacity capital costs that will be financed by taxpayers. Generator building costs are as follows: gas, about \$350 million per 500-megawatt unit; clean coal, about \$850 million per 500-megawatt unit. These are costs we should avoid, where possible. Thank you.

**The Chair:** We have about a minute and a half for questions. The rotation this time would be to the NDP, but they have no one here. We'll go to the government side for a question, quickly, and then we'll go to Mr Arnott.

**Ms Kathleen O. Wynne (Don Valley West):** I just want to make one point. You agree with us that we have to move away from coal generation. There isn't an argument about that. You're arguing about timing?

**Mr Coates:** Absolutely. The only way you can overcome shutting down coal in this time frame is basically to build a lot of gas generation. There is nothing you can get out there in that time frame, except of course for conservation. But conservation won't cover that type of generation.

**Ms Wynne:** OK. But you're not arguing that we can make coal generation clean enough to deal with the pollution issues.

**Mr Coates:** I don't think you can make coal or gas clean enough over the long run to meet the standards we'll eventually have to meet.

**Ms Wynne:** OK. We agree on that.

**Mr Coates:** Yes.

**The Chair:** Mr Arnott, 30 seconds.

**Mr Ted Arnott (Waterloo-Wellington):** You're from the IMO, and your organization is the expert on supply issues. You're telling us that if we move im-

mediately to close down coal-fired generation by 2007, we have to build a lot of new gas-fired generation.

Yesterday, this committee had the privilege of touring the Brighton Beach gas generating facility in Windsor. We were told it took about two years to build. Normally, it would take years of approvals leading up to it. How is the government possibly going to stimulate the development of the new gas-fired generation that's going to replace one quarter of the baseload of the province of Ontario?

**Mr Coates:** I'd say you shouldn't do that. From a financial point of view, it's ludicrous. Why would we go from one polluting source to another polluting source when eventually we all know that the goal is to get off all polluting sources? It makes little sense. We can clean up the coal to a certain extent. We'll need gas anyway, and gas cogeneration makes sense in some instances. But to go whole hog and build billions of dollars worth of gas generation and cost the taxpayers \$130 per person in Ontario—these are figures I took off a couple of federal Web sites. That's a huge cost to build that gas generation.

The truth of the matter is that you have a power system in Ontario that is falling apart before your eyes. I deal with this day in and day out. I deal with the day-in and day-out problems of the system. We have generators that need a lot of work. We have a transmission system that you don't hear too much about, but it's in terrible shape. We have a huge investment to make in the next few years, and to waste it on building too much gas generation is a stupid idea; I'm sorry, but that's as plain and simple as I can get. I've been in this industry for a long time and, to be honest with you, there have been a lot of bad decisions. I want to see some good ones. One of the good ones would be to go for clean generation. But don't replace it with another sort of clean generation; go to the clean generation and leave the coal in service, because it's there; it's not costing you a whole lot as far as upkeep is concerned. I'm not saying you should put billions of dollars into this, but keep these units running with the end result being that you'll have totally clean generation and then you shut them down as you can.

**The Chair:** Thank you very much, Mr Coates. We appreciate your input this morning.

## TRANSCANADA

**The Chair:** I now call the TransCanada group: Mr Taylor. You have 15 minutes, and if we can squeeze in some questions, we certainly will. Welcome.

**Mr Bill Taylor:** Good morning. My name is Bill Taylor, and I am the vice-president of eastern region power for TransCanada. I'm pleased to be here this morning and have the opportunity to speak to this distinguished committee.

I know you've been sitting through many hours of presentations and opinions from folks on these matters, and let me say that I can appreciate your patience; this can be pretty boring stuff. So if I lose you somewhere along the line today and you take only one thing from my

remarks, please let it be this: Non-government funding of energy infrastructure in Ontario can work. TransCanada has built some of the largest, most efficient energy infrastructure in North America for natural gas over our almost 50-year history. This has not been done with the need to tap into the public purse. The electricity sector in Ontario can, and should, follow this same path, and you, as leaders, should have that goal firmly in your minds as you embark on finalizing Bill 100.

Let me begin by giving you a quick overview of TransCanada. Our company is focused on two aspects of the energy sector: gas pipelines and electric power. At year-end 2003, we had over \$20 billion invested in these businesses, and we are growing. So far in 2004, we have invested approximately another \$3 billion, including a pending acquisition of the GTN pipeline system connecting western Canada to the California gas markets. The graphic on the screen shows you the extent of our current gas transmission assets.

On the power side, our business is also growing. The second graphic shows you the locations of TransCanada's 20 operating power stations, which total some 4,700 megawatts across all different fuel types, including hydro, coal, nuclear and natural gas. Additionally, TransCanada is the general partner and manager of TransCanada Power, Limited Partnership, which is Canada's largest power-based income fund. In Ontario, TransCanada is a large investor and operator of plant and equipment, with average expenditures close to \$250 million each and every year.

#### 0920

Before I leave this slide, I would like to highlight Bruce Power, which is shown in the graphic in yellow. TransCanada is an investor and owner of one third of Bruce Power, and we support the comments provided by Mr Duncan Hawthorne directly to this committee yesterday. Bruce Power is a great example of what operational excellence can do, and it has proven what private generators can do for Ontario. TransCanada is proud of Bruce Power and all the success that its dedicated employees have achieved.

Now let me turn to our company's perspective on Bill 100 and the continued evolution of the electricity sector in Ontario. First let me say that we applaud the minister and Premier McGuinty for taking necessary further action in this sector. This business is evolving, it's complicated and it requires continued attention.

Of course, the primary goal of the power sector should be the provision of uninterrupted, adequate supplies of energy for the people and businesses of Ontario. Bill 100 has this as its foundational goal, as it should.

The blackout of August 2003 reminded us that the cost to the economy of a relatively short interruption of electricity supply can measure in the billions of dollars, so while supply decisions are tough and of course come at some cost, the cost to society of inadequate supply is significantly greater. As the important work of the government addresses these matters through this committee and in the Legislature, we would encourage you to keep this fact at the top of your minds.

We agree that increased diligence and focus on the planning of the electricity system, both on generation and transmission, is vitally important. We agree with the creation of the Ontario Power Authority and with its mandate.

Another very important element of supply planning, which Mr Coates actually just touched on, is consideration of the long-term fuel mix that is appropriate for Ontario. Such decisions will affect costs, affect air quality and may directly affect various communities across Ontario. We are encouraged that Bill 100 has begun to address these questions head-on.

New supply, either to replace the aging coal-fired capacity or to meet the growing demands in the province, is definitely required. I say this not in any way to ignore or diminish the importance of demand management or conservation initiatives. These two can provide needed megawatts and should continue to be actively encouraged. Electrical supply equipment, however, is capital-intensive. It's expensive. This applies not only to new generation sources but also to the maintenance of the existing sources. Private sector funding of the necessary electrical infrastructure will allow scarce public funds to be directed to other priority areas. As Bill 100 outlines, the benefits of private sector competition can be created on a project-by-project basis to encourage the least expensive supply options.

The auction processes like those underway by the Ontario Power Authority are an example of this. This is effective economics and, at the same time, will meet the environmental objectives that have been set out for Ontario. Again, really good stuff.

However, the use of auctions and supplementary capital payments necessary to encourage the supplies is a blunt instrument. Real issues are created regarding how this new supply will interact on the price margin with the unsupported competitive market elements. Bill 100 calls this coexistence of competitive and regulated elements a hybrid market. Also, there is discussion of hybrid pricing for consumers, again a mix of regulated and competitive elements. This may indeed be workable, but we would suggest it will be challenging. TransCanada believes it is most important for you to address the fragile balance that this hybrid approach will create. The remainder of my remarks today will be primarily focused on this issue.

At the wholesale level, some electricity supplies will be regulated under Bill 100, the so-called prescribed generators that are the OPG baseload resources. Also, supply from the new clean-generation RFP will in effect be required to bid this supply at marginal costs. Marginal costs do not include any fixed or capital costs. These sources of supply will recover all or a good portion of their capital costs in a discrete way, either through a capital support payment or otherwise. This is fundamentally at odds with the competitive supplies that must recover all of their costs from the market price of energy. We suggest to you that the regulations and the detailed market rules to follow must be structured to address this important matter. A failure to do so will mean that a

naturally competitive market in Ontario will never be able to flourish and that government will have to continue to support new supplies directly if these matters are not addressed.

It is important to recognize that the various sources of supply, whether existing generation, prescribed generation—which was the former OPG supply—or from the OPA-led auctions, produce the same product at the end of the day: reliable electric energy for the consumers of Ontario. As such, these different categories of supply need to be treated equitably. This can be achieved through the introduction of market rules or structures that support capital costs in the market pricing of power. We urge the government to consult with all stakeholders and with the IESO to achieve this goal.

Finally, let me quickly cover a few other areas as I conclude my remarks.

Bill 100 touches on the need for consumers in Ontario to see, understand and ultimately pay the real cost of power. This is most important, and we agree with this critical point.

As I touched upon earlier, conservation initiatives should continue, and the results of such in terms of the impact they have on the supply-demand balance should be monitored carefully by the OPA and taken into account in their ongoing planning efforts.

The stakeholder advisory committees that have been established by Bill 100 should be crafted carefully to be as direct and effective as possible. Investors in this industry will only come to the table to the extent that their voices can be heard in the market structures that operate the market.

I will close by emphasizing the point that clarity, consistency and transparency across all the agencies of the Ontario government that are involved in this sector must be achieved. Ontario Power Generation Corp, the OEB, the ministry, the IESO and now the new OPA all must be headed steadfast in the same direction in order for this to work for Ontarians. Private industry, whether as consumers creating or retaining jobs in the province or in bringing the needed new supplies to the table, requires this clarity and consistency of purpose so that confidence can be regained in the sector and so that we can jointly build the necessary critical energy infrastructure that Ontarians require.

TransCanada and I sincerely thank you for the opportunity to speak to you today and for your attention to these matters. I'm happy to answer any questions if the members have any.

**The Chair:** Thank you very much, Mr Taylor. We have about four minutes, and we'll start with the government side on this rotation.

**Mrs Donna H. Cansfield (Etobicoke Centre):** Thank you very much for your presentation. I have two questions to ask. One is, I noticed on your diagram that the pipeline goes along the river and captures a number of the different hydroelectric dams that are there. Have you ever done any generation—there's wind and hydro; has there ever been gas and wind?

**Mr Taylor:** Gas and wind generation are often combined from the perspective that wind generation, much like run-of-river hydro, while it's predictable over a period of a year that you're going to get about a 30% capacity factor or so from a wind generator, you obviously don't know exactly when the wind is going to blow and when that generation will be available. So, oftentimes it can be combined with natural gas-fired generation that can provide support for that generation in periods of time when the wind doesn't blow.

**Mrs Cansfield:** Do you have examples of where that occurs?

**Mr Taylor:** One example is the initiatives that are underway at present in the province of Quebec. Led by Hydro-Québec Distribution, there are RFPs underway for generation driven by wind energy, and then in addition our company, TransCanada, is participating in a process where we're building a 550-megawatt resource in Bécancourt, Quebec, which is fired by natural gas.

**Mrs Cansfield:** My other question had to deal with conservation initiatives. Can you give me some examples of the conservation initiatives that TransCanada has put in place on the demand side?

**Mr Taylor:** TransCanada is directly involved in the generation business. We support the conservation initiatives and we recognize that it can be equivalent to, in terms of the money invested in conservation initiatives, the results that can be achieved with generation. But we as a company have not embarked on such.

**Mrs Cansfield:** I was thinking more of on the research and development part in terms of demand. But that's fine. Thank you.

**Mr Shafiq Qaadri (Etobicoke North):** First of all, thank you to you and TransCanada for your testimony. In slide number 5 you make reference to having a number of US operations—I guess power generation plants and so on. I wonder if you might address for us, with your US experience, three issues: the reliability of supply, the pricing that eventually the consumer sees and the self-sufficiency of financing—meaning, is it wholly financed privately, are there public-private partnerships, do you float bond issues or what exactly do you do?

**0930**

**Mr Taylor:** Maybe I'll start with the third question first, if I may, which is the issue of financing. The jurisdictions in the US that TransCanada is most active in are New York—the electric system in New York is managed at the state level. As well, we have investments in generation in New England, which is a multi-state market that is referred to as the New England Power Pool, or NEPOOL for short.

In both of those jurisdictions, there is very little public involvement in the industry other than through regulation. These markets are fully deregulated. The price of power at the wholesale level is ultimately flowed through to consumers at the retail level.

This was embarked upon through a series of deregulation initiatives which have occurred over about the last 15 years in those regions. Over that time they did

have a period where they eased in, if you will, from regulated pricing to a fully competitive market. But those initiatives—I can speak to New England at least—are just about coming to an end, where the “full” price of power is being flowed through to consumers at the retail level.

In terms of financing of new resources, that has become an increasing challenge with the financial distress that has come upon certain merchant generators in the US markets. However, there are recent examples in New York and New England where new generation is being financed, generally through the contracting of resources on about a 10- to 15-year time frame. An example I can use specifically would be an RFP that was recently issued by Consolidated Edison, of New York, for new generation on Long Island and in Manhattan. That has been supported through the contracting of resources for some period of time.

**The Chair:** Mr Arnott, do you have a 20-second question?

**Mr Arnott:** Yesterday we heard a concern expressed in Windsor that the government is amending the Electricity Act and the Ontario Energy Board Act to eliminate the words “to facilitate competition in the generation and sale of electricity and to facilitate a smooth transition to competition.” The witness said that deleting this passage, which currently exists in the Electricity Act and in the Ontario Energy Board Act, is the wrong signal to send to an already nervous market.

Being in the business of attempting to provide additional electricity supply to the province of Ontario, would you agree with the statement that this is the wrong signal to be sending to the private sector?

**Mr Taylor:** Yes, we certainly would agree with that.

**Mr Arnott:** Why do you suppose they’re taking that out of the act? Is it just symbolic, or do they really mean it?

**Mr Taylor:** At this point, through the efforts of this committee and through the development of the regulations, our company’s view is that we’re unsure why those moves were taken. But as I said in my remarks, we as a company remain committed to making investments in Ontario to the extent that structures are created in a manner that will allow us to earn a fair return on our investments in the province.

**Mr Arnott:** But you would agree that private sector companies are not necessarily going to look at Ontario as a favourable place to invest, to the extent that they’re questioning the government’s commitment to a continued market-based system?

**Mr Taylor:** I would agree with that, yes.

**The Chair:** Thank you very much for a very informative presentation.

#### CONSTELLATION ENERGY

**The Chair:** Next I would ask Mr Weir, of Constellation Energy, to come forward, please.

**Mr Rob Weir:** Good Morning. We’d like to thank the committee for giving us the opportunity to speak with

you today. We plan to limit our formal remarks to less than 10 minutes, to give time for questions. We would request that you reserve 30 seconds at the end of our time slot for us to summarize some key messages.

**The Chair:** Fair enough.

**Mr Weir:** With me today is Carrie Cullen-Hitt, our vice-president of regulatory affairs for Constellation Energy, based out of Baltimore, and Gary Wight, our director of regulatory affairs and business development here in Ontario.

We didn’t prepare an electronic presentation, so I’ll do my best to try to keep you on the right page as we flip through this. What we thought we’d do is give you a quick introduction to Constellation Energy, since we’re relatively new to Ontario.

Constellation Energy is a Fortune 500 company that evolved out of Baltimore Gas and Electric, the oldest continuously operated utility in the United States. Constellation has grown into the largest supplier of competitive electricity energy in North America, serving over 24,000 megawatts of end-use load. We are active in all deregulated markets in North America.

I’ll just flip to our interest in Ontario, because it’s rather diverse. Constellation has been active in Canada for almost three years. We participate in the retail and wholesale markets in both Ontario and Alberta. In Ontario, our retail division, NewEnergy, has a professional staff of 20 people serving the electricity requirements of commercial and industrial clients since May 2003. Some of those clients include companies like Burger King and Shoppers Drug Mart, and a number of large industrials that perhaps would rather be unnamed.

In addition to retail sales, our interest extends to the wholesale and generation segments of the market. Our affiliate, Constellation Power Source, is active in the Ontario wholesale market as both a buyer and a seller. Constellation Power Source is currently exploring opportunities to act as a load-serving entity working with a number of Ontario distributors. CPS is also examining opportunities to act as an asset manager for generation proponents.

On the generation side, Constellation Generation Group plans to participate in the 2,500-megawatt RFP. In addition to greenfield developments, our generation group is interested in the redevelopment of brownfield sites in Ontario.

Going to the next slide—Confidence in the Market?—we clearly recognize your commitment to a hybrid market, and we’re here today to support the implementation and design of Bill 100. Given the opportunity to speak to you today, we thought it would be important to provide some feedback on our perceptions of where we are today.

The Ontario market is two years into a state of partial reregulation or deregulation, depending on your perspective. However, the market is barely functioning at this point. Since the market opened, we’ve had a history of rapid regulatory change. All the while, the government has maintained the OPG monopoly that participates in

generation and retail markets but makes no meaningful contribution to the wholesale market.

On Bill 100, it would appear that the primary purpose is the establishment of the OPA, which may facilitate the development of new generation but does little else to move the market forward in its development. The draft regulations we've seen to date, while encouraging, provide a high-level proposal for the regulated pool; however, there are major gaps in the drafting as it is to date. The result is a high degree of uncertainty.

Moving to the next slide, we are often asked what it would take to get a generator to invest in Ontario, so we're going to try to talk more in the third person as opposed to Constellation specifically.

First and foremost, we need access to customers. Customers can take the form of competitive retailers, load-serving entities or utilities. Selling contracts to customers provides the revenue certainty required to build generation. Since there is no framework in Ontario to create buyers, the government has been forced to create the OPA.

In addition to this very significant point, there are four other things that Bill 100 does not address: a market free from monopoly influence; a market characterized by many buyers and many sellers; a market that seeks to depoliticize its reforms and minimize government intervention; and a stable market framework.

On future direction, and we'll sum up with this, why should the government promote competition and private investment? First and foremost, to shift the risk from the ratepayer to the investor: to create a market characterized by accountability; competition will drive efficiency; and price stability, which we know the government is very concerned with, will be achieved through new entrant generators and diverse ownership.

With respect to the conservation culture, conservation will only succeed if customers are engaged in the market. Consumers require price signals. Once consumers have price signals, they will require products and services to manage price and conserve energy. Competitive retailers will efficiently connect consumers to the market.

That concludes our formal remarks. We'd be pleased to take questions.

**0940**

**The Chair:** We have almost nine minutes for questions. We'll start with Mr Arnott in this rotation.

**Mr Arnott:** Thank you very much for your presentation. I think you've outlined in very simple terms why government policy is so important to encourage private sector investment and create the new generation that we need.

I would agree with you that Bill 100 has some holes in it, certainly, that have yet to be fleshed out, and that creates concern; that creates uncertainty. A couple of the business organizations that have been in have expressed the concern, as I indicated in my previous round of questions, that Bill 100 amends the Electricity Act and the Ontario Energy Board Act, in a symbolic way or explicitly—I'm not sure; I'm still looking for that

answer—which would lead you to conclude that they're taking a step away from encouraging a market-based system of electricity. Do you have concerns about that as well?

**Mr Weir:** In fact, our perception right now is that the government is taking positive steps toward encouraging new entrant generators. We certainly have concerns about the resulting competitive market, if you like, but we recognize and support right now the current initiative. So I'd take a bit of a different view: We think, while they are taking small steps, they are certainly going in the right direction.

**Mr Arnott:** But clearly if companies are going to come forward in the next three years to build gas-fired generation or whatever, whether it be wind or solar or what have you, to replace the 25% that may very well be lost if the government proceeds to phase out its coal-fired generation immediately, we have to have company involvement yesterday, in a big way, and there has to be greater certainty, as far as I'm concerned.

**Mr Weir:** Absolutely. I would agree with that.

**Mr Arnott:** Thank you.

**The Chair:** The NDP not being here, we'll next go to the government for a round of questions. Mrs Cansfield, the parliamentary assistant.

**Mrs Cansfield:** Thank you very much for your presentation. I know that a lot has been said about this Bill 100 deletion from section 1 of the Electricity Act and the Ontario Energy Board Act about facilitating competition. However, I believe there is an answer, and the answer lies in the new regulation, item 4: "Identify and develop innovative strategies to encourage and facilitate competitive market-based responses and options for meeting overall system needs," and that's within the OPA's function. So my question to you is, should it be in the OPA's function or should it stay with the OEB? I would presume you'd like it deleted out of the OEB and put into the function of the person who is doing the supply.

**Mr Weir:** I see Carrie nodding beside me, so potentially she could be more eloquent than myself.

**Ms Carrie Cullen-Hitt:** My response to that would be that while there are—and it's almost to your point as well on this absence of the word "competition" itself and whether or not that's symbolic or meaningful. Quite frankly, we have no real way of knowing that. We see what we read and engage in dialogue today to hopefully get some more answers to that.

In terms of whether or not there's real competition if it goes to OPA, to simplify your question, I would argue that gets you halfway there. If OPA is making purchases for a certain chunk of supply in the market, that's half of your hybrid model, but what's the other half in terms of the competitive retail side and the competitive wholesale side for generators that are not going via OPA? What happens in the electricity wholesale market and what happens on the retail side?

**Mrs Cansfield:** I don't disagree, but if you look at the regulation as it's laid out, I think it identifies the issues that you're speaking to. My issue was the fact that

competitive market-based responses are in our thinking in terms of their having been identified within the OPA and its function, as opposed to the OEB's function.

**Ms Cullen-Hitt:** Two quick responses. First, from my reading of things, I didn't see a clear mandate. While it may exist in dialogue, I didn't see a clear mandate that competition was an ultimate goal on the retail and the wholesale sides. I guess it's embedded somewhat in the hybrid model, but even though there's some language, it wasn't as explicit as it might be.

Second, whether or not it should be in the OPA or the OEB is, I think, a policy decision. Really, the ministry or Parliament needs to decide where that best should be executed.

**Mrs Cansfield:** It is currently decided: It's in the OPA regulation. But I would welcome your new wording, if you have some, to identify the clarity of that issue.

**The Chair:** Ms Wynne?

**Ms Wynne:** I just wanted to explore this with you, because there's a central issue here about the balance between the market and government. We keep hearing people from different perspectives coming and saying, "Too much government," or, "Not enough government."

So you've said that you recognize our commitment to this hybrid model. Yesterday the minister said that we're actually involved in an exercise of reregulation because we're trying to get some stability and some control. At the same time, we're trying to encourage people to come in.

You said—I don't know the slide number—that one of the four things that Bill 100 doesn't address is a market free from government intervention. How is that consistent with your understanding of what we're trying to do?

**Mr Weir:** I think that's one of the more enduring challenges that you'll have. We recognize that government has a significant role to play in the transition from, I'll say, the old Ontario Hydro monopoly to where we're going. So we recognize that and we recognize perhaps the need for the OPA.

When you look at a market free from government intervention, when you look at investment in generation, if you make a decision to invest hundreds of millions of dollars, you can't then have a government or a successive government turn around and change the rules. When you look at investing money, you need to know that there's a framework that not only the current government is going to work with, but you have some confidence that successive governments will work with the same framework.

**Ms Wynne:** As long as we keep getting elected, we can guarantee that.

But I guess the question is, how do you respond to citizens who say, "We want to make sure that our government's involved in the delivery of this essential commodity, this essential service. This isn't just a transitional role that we see for government. This is an ongoing regulatory role that we see for government." What's your response to those citizens, because we will hear from some of them today?

**Mr Weir:** That is in our summation remarks, but we'd like to see the OEB take on more of a policy-making role, and that would be where it is, as opposed to policy-making by the current government.

**Ms Wynne:** OK. I didn't read your summation remarks.

**Mr Weir:** No, no, you're not supposed to. It was a nice segue.

**The Chair:** Are there any more questions from the government side? We have about two minutes. Mr Arnott, would you have any?

**Mr Arnott:** My friend Mrs Cansfield made reference to what she called, I think, OPA regulations. I don't have copies of those draft regulations, I presume? I was wondering if they have been tabled with the committee. Are they public? Are they secret? Would you be willing to table these with the committee so that the members of the Legislature who serve on this committee have an opportunity to view those regulations? I would ask the question of you, Mr Chair, because I don't think those regulations have been tabled with the committee as of yet.

**The Chair:** We'll ask the PA to help us out here.

**Mrs Cansfield:** Obviously, I didn't bring them because they're not part of the bill. They're draft regulations that have been put out. They've been on the Web for a while, so you can download them off the Web, Mr Arnott. But maybe we have an extra copy we could give you as well. There are three regulations out.

**Mr Arnott:** I'd certainly appreciate receiving a copy and making sure that all members of the committee have such.

I would pose one last question to the presenters who are here right now. The thing we're concerned about in terms of certainty is that we heard yesterday a statement by a witness—and it wasn't refuted, to the best of my knowledge, by the government—that before the election, Dalton McGuinty, then the Leader of the Opposition, was quoted as saying, "I will not move to deregulation. I will not move to privatization. The market is dead."

You put some of these facts together, including that statement he made prior to the election—now, maybe it was just a politician making a statement that he didn't mean, that he wasn't sincere about; he was just hoping to reassure people or get their votes before election. But this is the root concern that we as an opposition party have.

**Mr Weir:** Just very briefly, our ongoing challenge across many of our business lines is the lack of certainty.

**The Chair:** One minute for your summation, sir.

**Mr Weir:** In summary, we want to emphasize that we acknowledge and accept the government's commitment to the hybrid model. We do want to work with you on the design and implementation of the hybrid market model.

We do think the government needs to renew its commitment to the decontrol of OPG. That doesn't necessarily mean the sale of assets but the decontrol of OPG. As a monopoly, OPG should not be participating in the retail market. Furthermore, a monopoly in generation does not provide price transparency nor a level playing field for new generators.

**0950**

With respect to the government setting a framework for the market, we strongly support that the government have an ongoing role and set the framework for the market, but we think they should follow through and give the OEB the mandate for greater involvement in policy development.

Finally, the competitive wholesale market does require the competitive retail market. That's a part of it that's frequently left out. We talk about a wholesale market and we don't talk about the need for a competitive retail market, and the two go together.

That concludes our remarks.

**The Chair:** Thank you very much for a very informative presentation and thanks to your colleagues too for being with us this morning.

#### CANADIAN ENVIRONMENTAL LAW ASSOCIATION

**The Chair:** Next I will ask the Canadian Environmental Law Association counsel, Theresa McClenaghan, to come forward, please. Good morning, and welcome to our committee.

**Ms Theresa McClenaghan:** Thank you for inviting us to appear today. My name is Theresa McClenaghan. I am counsel with the Canadian Environmental Law Association. I have provided to Ms Stokes, the clerk, a copy of our remarks today and I've also provided to her a copy of clause-by-clause amendments to the bill proposed by the Pembina Institute for Appropriate Development, with whom we have been working on many recent energy initiatives and which the Canadian Environmental Law Association supports. I will be speaking to a few of those today.

The Canadian Environmental Law Association is a non-profit public interest organization established in 1970 to use existing laws to protect the environment and to advocate environmental law reforms. It's also a free environmental advice clinic for the public and will act at hearings and in courts on behalf of citizens and citizens' groups. It's funded by Legal Aid Ontario and is one of 79 community legal clinics located across Ontario, 15 of which offer services in specialized areas of the law. We also undertake educational and law reform projects funded by government and private foundations.

CELA is working currently with other legal aid clinics, housing advocates, anti-poverty organizations and environmental groups on the environmental and social justice issues of affordable electricity, with emphasis on energy conservation and ensuring basic energy self-sufficiency for low-income residents of Ontario.

We also have a history of work on sustainable energy issues and most recently conducted a study together with the Pembina Institute for Appropriate Development, Power for the Future, a copy of which was presented to you by Dr Mark Winfield in his presentation on August 12.

I wish to address the following points in today's submission: (1) Bill 100 and the protection of public

safety and the environment; (2) Bill 100 and low-income consumers; (3) Bill 100 and a culture of conservation; and finally, Bill 100 and the future supply mix, specifically sustainable renewable energy.

First of all, with respect to Bill 100 and the protection of public safety and the environment, we propose, as set out in the wording provided to you in the Pembina handout, that the bill should be amended to provide a new purpose: "To protect public safety and the environment, and promote economic and environmental sustainability in the generation, transmission and distribution of electricity." Inclusion of public safety and environment, as well as environmental sustainability in addition to economic sustainability, is essential to ensure that decisions made at all stages in the electricity system include those aims.

In addition, there may be arguments as to whether economic considerations do in fact include environmental costs and it must be, in our submission, made explicit that economic considerations do include environmental life cycle costs of sources of energy for electricity production. For example, in comparing prices, do we include the environmental costs of mining, emissions resulting health impacts, accident liability, waste management and disposal? These costs must be included in economic comparisons and other choices made under Bill 100.

Although environmental sustainability appears implicit in the bill, for example, by directing the Ontario Power Authority to develop an integrated power system plan that is designed to assist in the government's achievements of its goals relating to the adequacy of the electricity supply, including from alternative and renewable energy sources, in section 25.28, this objective should be explicitly stated in the purposes of the act.

Public safety and protection of the environment must also be explicitly included as a purpose and as a factor in the mandates of the IESO, the OPA and the goals of the minister's directives in section 25.28. Evaluation of public safety must include the entire life cycle of the source of electricity supply and the risks of accidents. The irreversibility of accidents must be one consideration in Ontario's future electricity mix.

The second point we want to address is Bill 100 and low-income consumers' access to electricity supply and conservation programs. Again, we propose that Bill 100 should be amended to include a new purpose: "To ensure the access of low-income consumers to the electricity supply and conservation programs." While protection of consumers' interests and encouragement of electricity conservation are both stated purposes of the act in the amendments proposed by the bill, it is necessary to explicitly state that one of the purposes of the bill is to ensure access by low-income consumers to electricity supply and conservation programs.

It is expected that electricity prices will rise in Ontario. It is not appropriate to maintain an artificial price cap for electricity prices, and CELA submits that prices must be more realistic in order to achieve a sustainable

electricity supply in the province. However, at the same time, as you heard in earlier presentations on August 12 from the Advocacy Centre for Tenants Ontario and from the Toronto Environmental Alliance, both of whom are also founders of the Low-Income Energy Network, energy costs present a disproportionate burden to low-income households. A number of factors conspire to increase the risk that rising energy costs present to these households, including the lack of manoeuvrability in household budgets, the strain that a utility increase presents, the risk of failure of equipment if it is aging and the greater likelihood that many of those with the lowest incomes have electric space and water heating.

Electricity is a basic daily necessity in Ontario for cooking and heating. As a matter of justice, changes to the electricity system that will result in higher prices, which we do support, must be accompanied by measures to ease the burden that this will place on the lower-income households. In addition to measures to ensure access to electricity supply, it is also incumbent on the Ontario government to introduce measures that provide access to conservation programs for lower-income households. The capital costs of many conservation programs present an insurmountable barrier for many, even though reduced consumption might pay for the conservation measures. Programs designed to accommodate this reality must be explicitly provided in Ontario and must be encouraged by the design and purposes of Bill 100.

Third, Bill 100 and a culture of conservation: The purpose clauses that are presently in Bill 100, in (b) and (d), should be combined, in our view, as provided in the Pembina handout, to read, "To promote, in order of priority, energy conservation and efficiency and load management, the use of renewable energy sources and the use of clean energy sources, in a manner consistent with the policies of the government of Ontario."

As it stands, the bill does not establish a priority for conservation measures over new supply of electricity. A culture of conservation must be instituted and embedded in the structure of Bill 100 and the resulting institutions.

As you heard from Dr Winfield in his presentation on August 12, 2004, our Power for the Future report found that, based on existing well-accepted technology alone, a 40% reduction in electricity consumption in Ontario by 2020 compared to a business-as-usual approach is very realistic. This would be accomplished by ensuring that Ontario's decisions and policies encourage a high rate of adoption of today's best technologies, from an energy conservation point of view, over that time frame.

One of the striking findings in the study is that most of the expenditures to adopt conservation technologies would be spread across a large variety of sectors and incorporated in their normal business costs. For most of these sectors, the implementation costs would be recovered through the reduction in electricity consumption resulting from their adoption of lower-energy technologies.

We outlined a few policy steps in that report that would encourage such conservation measures. At this

juncture, with the reassessment of the vision for Ontario's electricity future represented in part by Bill 100, we submit that the bill must establish a hierarchy with conservation measures ahead of new supply.

The mandate of the Ontario Power Authority must be similarly modified to ensure that its mandate includes supporting environmentally and economically sustainable electricity supply and supporting the hierarchy of goals in order of priority, beginning, as we said, with energy conservation and efficiency, load management, use of renewable energy sources and the use of clean energy sources. Suggested wording is included in the Pembina Institute amendments to which I alluded earlier.

In addition, some specific amendments are needed regarding the conservation bureau which is to be established by Bill 100. Either the conservation bureau is intended to be an accountability mechanism with respect to conservation, or it's intended to be embedded in the power authority's power supply plan. In particular, if it's intended to be the latter, the power authority should be required to incorporate the conservation bureau's forecasts and assessments regarding energy conservation and load management into its assessments of the adequacy and reliability of electricity resources. On the other hand, if the prime rule is one of accountability, then the conservation bureau should function separately from the Ontario Power Authority. Mechanisms are needed to ensure that efficiency and conservation measures are, in either event, incorporated into the power supply plan and that the programs are actually implemented.

#### 1000

Finally, Bill 100 and the future supply mix, specifically sustainable renewable energy: As has been vividly demonstrated in Ontario and much of North America with recent events in the electricity sector, the time has come to put a premium on sustainable renewable energy. For the electricity supply that is needed, even after conservation measures are pursued, the province should establish a hierarchy of renewable and clean sources of electricity. The bill must include provisions to evaluate renewability and to compare environmental effects of various types of supply on a life cycle basis.

**The Chair:** Thank you very much. For this rotation, the NDP would be up first, but they have no members here this morning. I'll go to the government and then to the Tory caucus. Does anybody from the government have a question?

**Ms Wynne:** I want to talk to you about the conservation amendment that you're suggesting. I understand you want conservation to be the primary focus and generation after that. I guess you could argue it both ways, that they're parallel processes, that one needs to be part of the other. But my big concern is—and you're pretty close to the community on this and you have a lot of activists who work with you—how are we going to get the message out, as a government and an activist community? What's the thing we need to do to change behaviours, in your opinion?

**Ms McClenaghan:** Well, in our view, and in my opinion, it's not enough to just talk about the fact that we

have to be good citizens and do the right thing—that works in a crisis, as we saw last year—but we need a sustained approach to conservation. So we need to embed conservation in the way we make our decisions. That means that the systems and the equipment that are used by all of us in our everyday life, not only in our household but indirectly through the products we purchase, through the institutions we visit, the businesses we patronize, all have to have economic incentives to pursue conservation ahead of new generation, because conservation is much more sustainable.

In addition, the changes that are needed at a household level for everyday citizens are often capital-intensive. They have a big payback for the province as a whole, because were the entire citizenry to make a wholesale change to much more efficient technology, we'd reduce especially some of the peak demand during hot and cold weather, which of course, as you know, reduces some of the requirements for new supply or baseload. So it's important to make it possible for people to afford new technology that will actually reduce their energy consumption.

I think people did start to appreciate last year, during the unfortunate blackout, that everybody's efforts do make a difference. I think it's often a barrier that people think one person's efforts don't matter. But when we broadcast that across the whole society and when everyone realizes they're not just carrying the freight for everyone else, that everyone's doing that, then it makes a difference.

**Ms Wynne:** I guess I see that education function as the work of the conservation bureau.

**Ms McClenaghan:** That's part of it.

**Ms Wynne:** Yes, that's part of it. That's the reason I'm encouraged that conservation is being given that status.

**Ms McClenaghan:** Yes, but if I may, one shortcoming I see is that the conservation targets, at least as I read the legislation, are not anticipated to be mandatory, so there's a real fear that because of concern over ensuring adequate supply, the supply side of the mix will overtake the conservation side. In fact, we should set mandatory targets. We should strive, we should set policy to be very, very aggressive on conservation and then pursue supply just for what's remaining.

**Ms Wynne:** OK. Thanks for your comments and thanks for the amendments.

**The Chair:** Mr Arnott, please.

**Mr Arnott:** Thank you very much for your attendance today and your presentation. I think you've made your points very clearly and effectively. This committee appreciates your input, for sure.

You've focused a lot on the issue of conservation. You've raised some very important questions about the government's commitment to conservation, and you've suggested some amendments as to how the government could re-emphasize or underline its commitment to promoting conservation.

You've also pointed to a study, the Power for the Future report, which suggests that it's possible to have a

40% reduction in electricity usage if we take conservation to its complete emphasis and degree possible. You say it's very realistic.

What is the base you're comparing the consumption in 2020 to and saying it could be reduced by 40%?

**Ms McClenaghan:** It's 2020 versus 2020. It's business as usual versus what we could achieve with conservation measures. We didn't actually hope for new technology; we didn't hope for new inventions. We used today's best existing technology. We used today's forecasts for natural gas, electricity and other prices. And we looked at the very modest policy changes that would be needed, such as incentives, quicker payback periods for industry and that kind of thing, which alone would promote quite a large shift in many sectors—90% to 99% uptake of today's best technology by that year.

**Mr Arnott:** How much would you be looking to industry to contribute to that 40% goal, versus residential consumers, for this ratio?

**Ms McClenaghan:** The study showed that, as a whole, between now and 2020 about an \$18-billion expenditure across society would result in 40% conservation. Compared to other numbers that are being proposed for possible building of new supply, that's not as alarming a figure as one might think. Furthermore, a large proportion of that figure is recovered, whether it's a private individual or a business, through their reduced energy consumption. So although it's a large expenditure, it's recovered. The issue often is the payback period.

**Mr Arnott:** When I was first elected to the Legislature in 1990, the New Democrats were of course in office and they talked about promoting conservation. They had a bill before a predecessor to this committee called Bill 118. I think they were going to spend up to \$6 billion to promote conservation efforts through the resources of Ontario Hydro at that time.

Why do you think the New Democrats were unsuccessful in terms of promoting conservation to the extent that they had hoped to achieve? What lessons could be learned by the current government and future governments?

**Ms McClenaghan:** This study isn't relying on government to spend \$6 billion or \$18 billion. This study is talking about looking at the existing climate, including business payback decisions and tax the environment, and saying that a few policy changes with aggressive targets right now, today, while we're engaged in this discussion about our future supply mix, can achieve enormous dividends by 2020, instead of counting on starting to build massive new capital for new supply.

**The Chair:** We certainly appreciate your presentation this morning.

## DIRECT ENERGY

**The Chair:** Next I would ask the Direct Energy group to come forward. Mr Massara and Mr Mondrow.

**Mr Paul Massara:** Good morning, ladies and gentlemen. Thank you for this opportunity to come before the

standing committee. We would like to make a number of points this morning, but first of all we would like to just give you something about our credibility and our credentials.

Direct Energy is part of Centrica PLC, which supplies over 40 million customers every single day. We've invested \$2.5 billion in Ontario. We serve 1.7 million households. That's half the households in Ontario. Over 500,000 customers have come to us to take retail choices, in terms of fixed-price electricity contracts. Some 700,000 customers came to us to take fixed-price gas contracts.

Not only are we active in the retail market; we're also very active in the upstream generation market. In the UK, we have 2,600 megawatts under ownership. We have just bought our first plant, 350 megawatts, in Texas. We have 3,000 wells in Alberta to supply over 300,000 households with gas.

So we're involved in a unique way from many of the people you'll hear today. We're both upstream and downstream, and we believe it's the leveraging of those two positions which creates shareholder value and gives us a unique perspective on the energy markets.

#### 1010

In terms of the points we'd specifically like to make today regarding Bill 100, there are three main messages we would like to get across. First of all, we've heard from other parties that deregulation hasn't worked and there are no clear markets for that. We fundamentally disagree with that. We believe there are clear examples of sector models that have worked and attracted new capital in deregulated environments.

In the United Kingdom, probably the most successfully liberalized market in the world, over 16,000 megawatts of privately owned generation has been built and commissioned over the past 10 years. Additionally, 3,000 megawatts is still being built. Furthermore, with the introduction of market changes to get market pricing, prices to residential consumers fell by over 30%.

In Alberta, reserve margins improved from 10% to 20% after the market opened up in 2000. In Texas, over 22,000 megawatts of new capacity has been added in the last four years with a free and open market. We believe there are plenty of examples of how a free market can attract capital.

The second point we'd like to make is about the essential role of retail in attracting new private sector generation. The government has clearly signalled an objective of securing new investment in a manner that transfers investment risk from ratepayers to taxpayers to investors. We believe that the retail side is absolutely essential in terms of being able to create a balanced and fair market. Where the government is now is that they have set a framework. They have to start from where they are, and they are not taking an ideological approach; they're taking an approach which is to deal with the problem they've got. The retail market has to be part of that. The retail market allows, effectively, long-term investors in power projects to offset that risk by con-

tracting with third parties and diversify their counterparty risk. The requirement, we understand now, with the OPA coming in and contracting, is a different type of risk and remains the risk of ratepayers in the longer term. We believe the retail market is an essential part of that deregulation.

The third point I'd like to make is about the essential role of retailers in achieving conservation. We believe there is substantial new investment needed. In order to make conservation work, people have to understand what consumers want. We have to be able to educate consumers, and we have to bundle up products and services in a way that they can understand and make use of.

We have examples of this. Direct Energy Business Services responded on behalf of its customers in the aftermath of the blackout. From our Mississauga site, we reduced over 900,000 kilowatts of demand remotely via computer to a number of sites, reducing their total demand by 40%. That's banks, hotels and a number of other branches of stores. We believe there are examples today, there is technology today, and we are in the market to create choice and to effectively create conservation. At the end of the day the free market is in a far better way to deliver those savings than through regulated plans.

In particular, evidence from the UK has been that they set up a conservation program which was based upon allocating a certain amount of funds for reduction and conservation. After three years they widely recognized that as being a disaster in the sense that they hadn't effectively targeted the funds to the output. The new program they have requires retailers to be in the marketplace and target any payments they get related to actual conservation that they've achieved as opposed to programs they've set up.

We believe fundamentally that the government is in the role of setting policy but that the free market and retailers in particular can actually be used as a tool to implement that. Again, in the UK that has been proven time and time again, both in terms of renewable obligation certificates and in terms of conservation: The government set the policy but retailers in the free market set the lowest price of actually delivering that.

Fundamental to all of that is our restatement that we believe it should be in Bill 100 toward free market competition. We've heard from a number of people that it is in there. Nevertheless, in order to attract investment it is a healthy signal that it remain in there as opposed to being taken out.

We have specifics on Bill 100 which we will send in by writing. I'm happy to take any questions.

**The Chair:** Thank you very much. In this rotation, we have the government caucus first.

**Ms Wynne:** I'm sorry, I missed the beginning of your presentation.

**Mr Massara:** That was the best bit.

**Ms Wynne:** I'm sure it was.

**The Chair:** Just before we have the question, could you identify yourself for Hansard, Mr Massara.

**Mr Massara:** I'm Paul Massara, president of Direct Energy for Canada.

**Ms Wynne:** You talked a little bit about the program that's in place now, but there has been money given to LDCs to promote conservation; I believe \$225 million has been put in to promote conservation measures locally. Can you comment on the efficacy of that?

**Mr Massara:** Referring back to the UK, I think we would have major issues with that. It's a bit like giving money to 25 different charities—maybe 93 different charities. They spend the first 50% getting consultants in and plans and marketing, and then the final 30% gets to people who need it. Our view is that doing it through the LDCs is not the most efficient manner.

**Ms Wynne:** So you want it to go directly to—

**Mr Massara:** I think it needs to be targeted to people by results. It doesn't matter who does it, whether it's the LDCs or retailers, but they should be targeted by the results—the actual conservation benefits they've saved—not by programs.

**Ms Wynne:** So it's not so much where the money has gone, it's the strings or lack of strings attached to it. Is that your concern?

**Mr Massara:** I think the governance around it needs to be in place, and it should be open to all, whether it's retailers or the LDCs.

**Ms Wynne:** OK. Thank you.

**The Chair:** Further questions?

**Mr Arnott:** I want to thank you very much for your presentation. I'm glad you've had the opportunity to express your view. You didn't leave us with any paper, but certainly we have the Hansard record of what you said. I'm sure the committee will give consideration to your expression of views as we move forward; at least, I hope that would be the case.

Do you currently have salespeople on the street selling contracts to consumers, or has that program ended?

**Mr Massara:** We do for gas and home service products. We don't have anybody selling electricity for small residential. The commercial market is still open, and therefore people are out there selling commercial, along with other players.

**Mr Arnott:** Do you have a code of standards for salespeople, in terms of the integrity of the sales pitch and how that is made, and in terms of consumer protection if they change their mind afterward? Can you tell me a little about that?

**Mr Massara:** Sure. There are a couple of things there. One is that the government actually has detailed policies relating to that, in terms of the rights and obligations of consumers in making choices.

We ourselves have effectively two or three levels of compliance, training and accreditation. We do criminal and background checks of all the people we hire. We then do training. People have to go through accreditation and training before they're allowed out, then supervised. We then have spot checks and a compliance program that goes above it.

So we've moved significantly over the last three years from, I think, the bad days that used to exist in Ontario when Centrica bought Direct Energy and we transitioned. The complaint ratio now is 0.2% of our customers who have any complaints on our sales side.

**Mr Arnott:** I haven't received a lot of complaints in recent months, but certainly I did receive some from constituents.

**Mr Massara:** We believe it's fundamental. One of the things you're dealing with here is a marketplace where people don't readily understand. It's about consumer information. They need to have that conversation, and they need a longer time to actually talk about issues and make that choice.

**Mr Arnott:** I assume your salespeople do work on a commission basis?

**Mr Massara:** They work on a salaried position and a commission basis top-up.

We are making a written submission here, and I will hand out the speaking notes I have today.

**Mr Arnott:** Thank you very much.

**The Chair:** We have a couple of minutes.

**Mrs Cansfield:** I'm pleased to hear that you're going to distribute your notes, but I also would like you to provide the other options that you're identifying as alternatives. If we could have those as well, that would be welcomed.

**Mr Massara:** Sure, we can do that, in terms of the experience from the UK. We believe that's very valid.

**Mrs Cansfield:** Absolutely, and also in dealing with the local distribution companies and how you see the alternatives to what's being proposed.

**Mr Massara:** Absolutely. We will do that.

**Mrs Cansfield:** I appreciate that. Thank you.

1020

**The Chair:** Ms Wynne?

**Ms Wynne:** I just wanted to come back to the central point: the balance between the free market and the public good. I would just ask you to address the issue of nervousness. People don't always think a totally free market serves the public good. That's the fine line we're trying to walk here.

**Mr Massara:** I agree with that. It's difficult, and I think the government has taken a very practical approach to where they are. But at the end of the day, I don't think it serves consumers, in the long term, any benefit to give them subsidized electricity. I think they need to be able to be informed about the choices they make. I think they need to be informed about conservation. It is not enough simply to put in smart meters everywhere without the marketing plans and the choices available to individuals, and quite frankly, I'm not sure government is best placed to effectively carry out all that education. The retail market and capital is willing to go into that marketplace because they believe they can create that benefit and help educate consumers at the same time. We fundamentally believe that.

**Ms Wynne:** Fair enough. Thank you.

**The Chair:** Thank you very much, gentlemen. We certainly appreciate your input this morning.

#### THE CASE FOR PUBLIC POWER

**The Chair:** I'd now ask Ron Bartholomew, of The Case for Public Power, to come forward.

**Mr Ron Bartholomew:** There are three of us, and we aren't all Bartholomews.

**The Chair:** For Hansard, sir, which one is Mr Bartholomew? Are you going to be speaking?

**Mr Rod Anderson:** The three of us will be speaking, and I will introduce everyone.

**The Chair:** Thank you very much. Welcome, gentlemen.

**Mr Anderson:** Thank you, Mr Chairman, for the opportunity to present to your committee. Three of us are going to be making this brief oral presentation. My name is Rod Anderson. I was a practising chartered accountant in a past life. With me are Ron Bartholomew, an engineer and former vice-president, production, of Ontario Hydro, and Tom Campbell, a former deputy minister of finance and a former CEO of Ontario Hydro.

We represent The Case for Public Power, a group of nine concerned electricity customers with over 300 years of utility, accounting, project management and financing backgrounds at the executive level. A brief resumé of each member is attached to our written submission, which we will be tabling with you today. None of us, I might say, has any financial interest in the electricity sector. While there are many stakeholders in the sector, our focus is on finding the mix of private and public sector participation that best serves the interests of the electricity ratepayer and the Ontario economy.

I will give a brief introduction, Ron will provide an overview of our main recommendations and Tom will give a concluding summary. Other members of our group in attendance today, in the background, are Jack Biddell, Rob Burton, Elgin Horton, Bob Strickert and Boyd Upper.

Each of us has watched in dismay as a series of actions by Ontario governments of all stripes over the past decade created a serious crisis in the electricity sector:

A failed experiment in deregulation and privatization accomplished nothing but higher electricity costs and 10 years of lost opportunity;

Dependence on natural gas for electricity generation increased without knowing from where and at what price the gas might be available;

Worst, there has been no meaningful long-range strategic planning of the electricity supply and delivery system for more than 15 years, and until recently there has been no authority designated to take charge of this mess and correct it.

I'm going to start with what we agree with in the proposed legislation.

We applaud the continuance of public power in Ontario. Public ownership of the essential electricity

sector was the key to Ontario's prosperity for the past century. Ontario industry managed to stay energy-competitive in spite of the province having few remaining sources of primary energy. And it is a fact that the customers of public power in North America have, in general, benefited from lower electricity prices over the years compared to the customers of private sector power utilities. We believe Ontario is making the right choice for the future to keep our heritage electricity assets in public hands.

We also applaud the return to central strategic planning. It was obvious that market forces were not providing a secure supply of future electricity generation and were leading to a dangerous increase in dependence on natural gas.

We also strongly support the concept of establishing an authority to take control of the situation—not a return to the old Ontario Hydro but rather a powerful planner and implementer to encourage significant private sector involvement, where appropriate, in all phases of both demand and supply options for the future.

Finally, we support the government's stated determination to keep a transparent, arm's-length relationship between future governments and the electricity sector.

These are all positive and essential first steps. Something like the draft Bill 100 is important and desperately needed first aid, but is it enough? Our written submission outlines four major issues which we believe still require resolution.

Ron will now outline for you the most important of our recommendations.

**Mr Bartholomew:** There are four issues that deserve further attention.

First, deregulation of the electricity market: This was a bad idea in the first place and doesn't get any better with the proposed hybrid arrangement of some reregulation of a small part of the market and regulation for the rest of the market. John Manley recently stated that he couldn't find anywhere in the world that deregulation had worked effectively. Even without the marginal pricing fiasco of the past two years, any amount of deregulation is clearly bad news for the average electricity ratepayer. We recommend that Bill 100 finish the job and permanently kill this failed experiment in deregulation.

Next, subsidization: It's not too well known that some of the electricity ratepayers have been subsidizing all of the province's taxpayers for years through hidden taxes in water rentals and bond guarantees, fees for which the province has no offsetting costs. Lately, the tax grab from ratepayers has been significantly escalated. This is illogical, unfair and regressive. By "regressive" we mean that, in many cases, low-income earners are required to provide subsidies to higher-income earners. It could be corrected by a small and simultaneous adjustment to both electricity rates and tax rates, leaving the province revenue neutral, and could be easily explained as a tax adjustment, not a tax increase. This should be addressed in Bill 100.

Next, the power authority mandate: The issue that concerns us most is that planning and financing of future

additions, rehabilitations and retirements of the bulk transmission and generation assets are now badly fragmented. The newly proposed Ontario Power Authority, the newly named Independent Electricity System Operator and the existing Ontario Electricity Financial Corp all have a piece of the action. This could be corrected by having the system operator and the Electricity Financial Corp both continue their functions as merged components of the new power authority. This would streamline the necessary interface with the government and the Ontario Energy Board on strategic energy planning matters. It would also reduce bureaucracy and cost by having only one board of directors and shared support staff.

We believe that in order to dispel the sea of misinformation that now exists, the new power authority must become the province's recognized source of reliable and current data on all aspects of the electricity sector. We also believe that the legislation must clearly spell out a set of charter guiding principles for the new power authority.

Next, the concept of debt financing: Debt financing is poorly understood. We've heard a lot of misinformation about the problem of hydro debt. We believe most of this was hype to facilitate the previous government's plans to sell off utility assets.

The concept of using long-term debt to acquire long-life infrastructure assets is totally appropriate, particularly when a no-fee provincial government guarantee is applied. Prudent use of debt financing helped build a 28,000-kilometre province-wide bulk transmission system, a province-wide communication system, 68 hydraulic stations and a fleet of fossil and nuclear plants. However, debt financing only works if enough is spent on maintaining the assets to ensure that they continue to operate over their planned economic life. In the past decade, because rates were frozen at unrealistic levels, such maintenance was not done and performance deteriorated, especially in the nuclear program. As a result, financial performance deteriorated. But statements of hydro debt becoming a burden on taxpayers are nonsense.

#### 1030

Current hydro debt is much larger than it needed to be, partly because of unnecessary Darlington financing costs that were in turn caused mainly by government-mandated delays in construction. However, that total debt—which, incidentally, is smaller, on a per capita basis, than the hydro debt of either Quebec or Manitoba—can and should be managed by the electricity ratepayers of OPG and Hydro One. That debt is not and should not become a burden on the province's taxpayers. However, the management and public reporting of that debt do need simplification. Again, we believe that Bill 100 should address this issue.

Finally, we wish to comment on the choices facing Ontario for primary energy, from which electricity is made. We believe that aggressive conservation efforts are needed but that conservation alone will not be sufficient.

There are not many economical-to-develop hydraulic sites left. With coal being phased out and natural gas availability uncertain, it seems clear that renewable sources will have to be encouraged and more nuclear stations will have to be built.

Maintaining energy independence has always been a challenge for Ontario. This is still not easy, because Ontario has become a have-not jurisdiction when it comes to primary energy sources. That means that Ontario must plan very carefully to stay both energy-independent and competitive.

Our written brief makes a set of more detailed recommendations on each of these four issues. Tom will now summarize.

**Mr Tom Campbell:** There's no simple answer to Ontario's electricity supply crisis—and we have a crisis. We need to develop all the options that make sense, and the new Ontario Power Authority faces a daunting task to find the right balance. The government needs to enable the Ontario Power Authority to move quickly on several fronts: conservation, wind, hydraulic and nuclear.

The Ontario Power Authority will need to work closely with both the government and the Ontario Energy Board to balance the need for rate increases, which they will need, with the need to keep Ontario's economy cost-competitive. That's the key problem facing us all. The latter is critical if the province wants to continue to deliver our social programs, for example.

The making of rational choices is clearly dependent on having realistic and current data on the economic, environmental and social costs of all the options. Such data does not now exist. This is a big problem. The last comprehensive analysis of the data was done by Ontario Hydro in 1989.

The recently published data comes from vested interests and lobby groups. We find that such data is often extreme and biased and unnecessarily critical of other options. The public is often left guessing about the factual answers to questions such as: How much do wind and solar really cost if there's no government subsidy? How reliable are nuclear industry estimates of cost and schedule? What's the total realistic potential and cost of undeveloped hydraulic sites? What's the realistic cost and availability of natural gas in the longer term? That's probably the biggest pitfall that we're facing. We have a list of others in our brief, which you'll see.

It's clear that decisions are now being made based on opinion, and often biased opinion. We must not repeat the poorly informed decision of a few years ago, when the government of the day forced Ontario Hydro into signing so-called non-utility generation contracts at inflated long-term prices that have apparently caused a recent write-off of \$4.3 billion. Guess who has to pay for it? The ratepayers.

We are living in a sea of misinformation with respect to believable electrical energy data. One of the most important tasks for the new Ontario Power Authority is to quickly become the provincial resource centre for factual data on the electricity sector's future choices. I think

there's a real opportunity here. They could engage, for example, the engineering and economics faculties of some of our leading universities and colleges to assist them in gathering this data and keeping it current.

The Ontario Power Authority also needs to become the province's recognized authority on where the rate-payers' dollars go. For example, how much goes to production costs? What are the taxes? What are the hidden taxes and fees? There are billions of dollars at stake here. What are the real debt servicing costs and the debt retirement payments? In fact, the Ontario Power Authority needs to become the recognized authority on all data relating to the electricity sector, both in Ontario and, for comparison—and we need this—in neighbouring jurisdictions.

For example, we heard how wonderful it is in England. But a friend of ours lives in London. I called her and said, "How much are you paying for electricity?" We converted it to Canadian dollars, and it's 24 cents a kilowatt hour, as opposed to about 10 cents here. That's an important piece of information for us to have when we're comparing ourselves to other jurisdictions and how their systems work. Also, the media need a reliable source of data to encourage informed public debate on future options.

We recommend that Bill 100 refrain from being prescriptive on the sources of future primary energy. The legislation should make clear that the primary stakeholder is the electricity customer, with a concern for the competitiveness of the Ontario economy being paramount, and security of supply and environmental responsibility as part of it.

We are deeply concerned, in reviewing Bill 100 and particularly the regulations that have just come out, because we see a tendency here for the government to attempt to micromanage the implementation of energy policy rather than setting up the responsible authority, such as the Ontario Power Authority, and allowing them to do the job and keep the lights on. John Manley and Jake Epp warned about this. They said it would be a disaster. We're tabling with our brief an Appendix B, which lists 15 occasions when attempts at government micromanagement and political interference cost billions of dollars. I'd ask you to read that.

As we table our brief, I would like to conclude by emphasizing one point from page 9: We are convinced that the energy supply shortages facing us in the future will be significantly worse than those we faced in the 1970s. Serious stuff. We believe that only the jurisdictions that are blessed with abundant local primary energy, or, failing this, that have invested heavily in nuclear power will survive with their economies intact. This is a hard fact imposed upon us by a tough economic world, and regardless of our politics, no amount of wishful thinking, rhetoric or good intentions will change that fact.

**The Chair:** We have about one minute left. On this rotation we have the Tory caucus first.

**Mr Arnott:** Thank you very much, gentlemen. You've offered a rather scathing indictment of govern-

ments of all stripes over the last 20 years or so. I assume you would agree with Adam Beck's statement that you can't trust the politicians to run the electricity system in the province of Ontario.

**Mr Bartholomew:** Hallelujah.

**Mr Arnott:** I'm 41 years old. It goes back longer than that, I gather.

We were all concerned about the debt load that the old Ontario Hydro was carrying. You talked about how interference by government made the debt worse, and you pointed particularly to the Darlington project. Could you tell us a little bit more about what was done and why that created problems for Ontario Hydro?

**Mr Anderson:** It did make it worse, certainly, but this idea of the debt being crushing is an optics thing, and the whole idea of stranded debt was a way of trying to get these in a way that it was easy to sell off to the private sector. We don't believe the debt was crushing. You might as well talk about a private sector company having out-of-control equity. Debt is how we finance things, and it happens to be cheaper than equity.

**Mr Arnott:** What about Darlington?

**Mr Bartholomew:** The Darlington issue is one of the 15 examples given in Appendix B, which we are tabling with you. We have also written a paper analyzing the cost variances on Darlington, and we can leave a copy of that from which you can make additional copies, if that would be helpful.

**Mr Anderson:** But billions of dollars of that overrun was due to government starting and stopping.

**Mr Arnott:** I want to express my appreciation to you for coming forward in this way. Obviously you have a great deal of expertise and experience that are going to be very beneficial to this committee and to the Ministry of Energy, I would hope, going forward.

**The Chair:** Gentlemen, thanks very much for your input this morning.

1040

#### ENERGY ADVANTAGE INC

**The Chair:** Next I would ask that Energy Advantage Inc come forward.

**Mr William Houston:** Good morning, Mr Chairman. My name is Houston, and with me is Mr Ferguson from the company. We'll be dividing the presentation.

First of all, just by way of an introductory remark, we have passed out copies of our brief. Secondly, our brief is relatively narrowly focused. We support the general intent of Bill 100 and many of the initiatives taken. We believe there are a couple of particular concerns with respect to liquidity in the market and the role of the Ontario Power Authority that we believe need consideration.

**Mr Glen Ferguson:** My name is Glen Ferguson, VP of operations at Energy Advantage. Thank you very much for giving Energy Advantage the opportunity to address this committee.

If I may, I would suggest that this committee and the government have a very daunting task ahead of them. We

believe that trying to design a hybrid-type market is going to be very difficult. We hope, in that design, that some of our issues here are taken into consideration. We'll elaborate on this as we go through.

By way of introduction, Energy Advantage is Canada's leading independent provider of energy and environmental management services. We provide these services to large commercial, industrial and institutional energy end-users located right across Canada. Our company is based in Burlington, Ontario. We're a private organization, with about 50 employees involved in this activity. We also have an office in Calgary, Alberta. Our services include energy commodity management, energy efficiency services and emissions management.

Energy Advantage's Ontario clients include many of the top retail and grocery stores, a large number of commercial building owners and managers, mid-sized industrials and several large institutions. The aggregated Ontario electricity demand is currently about 1,000 megawatts, which is I believe about 4% to 5% of the total demand in the province. I would also mention that we have several clients in the Alberta market, which was deregulated prior to Ontario. We also manage their purchases.

We regularly represent the interests of these clients in our public forums, workshops and advisory groups—over the past year, for example, two initiatives: the Independent Electricity Market Operator's demand-response workshop and the OEB's consultation on demand-side management. These initiatives contemplate incentives to stimulate consumers' response to commodity prices and energy efficiency opportunities. I might add here that prior to the market being reregulated, as we say, we had seen a lot of interest from our clients in energy efficiency initiatives. A lot of those were put on hold, pending what happened to the pricing.

We have observed that mid- to large-sized commercial and mid-sized industrial end-users have not been appropriately recognized as a group. At least, in the past they haven't. Indeed, large industrials have a very good market group called AMPCO; I think you're all aware of that. Residential consumers can vote, so they're usually represented by the government. We hope that the government would also take into consideration our clientele, which sometimes gets overlooked, and that's the large commercial and smaller industrial sector.

Consequently, we believe it's desirable to inform all stakeholders that there's a whole class of consumers who are neither fixed-rate residential nor hourly-rate large industrial consumers. These underrecognized customers have their own unique operating characteristics and are exposed to the hourly electricity market. Furthermore, when all their sites are aggregated, many of them are very large. They eclipse the demand of a number of large industrials. They have a lot of locations, a lot of facilities. In aggregate, they consume a lot of electricity. We are pleased to have the opportunity to bring their perspective to the committee.

Energy Advantage supports several submissions that we've seen and that have been received by the com-

mittee, including those of the Ontario Energy Association and the Toronto Board of Trade. We believe that they are on common ground in saying that a comprehensive policy designed to minimize electricity costs and avoid the recreation of the high—although largely hidden from the public—electricity costs associated with the old Ontario Hydro must include a substantial element of privately owned generation to ensure effective competition.

We'd strongly disagree with other submissions—some we've heard today—that are based on fond reminiscences of the glory days of Ontario Hydro in the early part of the 20th century. They ignore the reality of the creation of a massive and burdensome debt over the last 30 years—the previous presenters thought that to be mischaracterized, perhaps; I think \$38 billion is a big number—and the future decommissioning costs associated with Ontario's nuclear units. The reality was that, without any profit incentive to create value for the people of Ontario, power at cost at Ontario Hydro had become power at hidden cost.

Through interaction with our clients, it is our observation that variable prices and the ability to measure and pay for use by time of day are market characteristics that have been readily understood by large and medium-sized customers. Such end-users accept the concept of higher prices in times of greater demand and short supply, and many are actively seeking ways in which to respond to such price signals by, first and foremost, using energy more efficiently, shifting consumption to higher periods to lower their demand charge and hedging costs through financial instruments. Several of our customers expect to participate in the recently announced demand reduction and demand-side management RFP programs.

**Mr Houston:** Mr Chairman, I'll complete the balance of the submission.

Energy Advantage does not wish to take the committee's time restating many of the arguments originally made in the Macdonald Commission report, which have been ably updated and restated here in other submissions. We would note, however, that several of the central planning oriented submissions to this committee systematically ignore the Macdonald report and its well-researched and clearly empirical conclusions, focusing on the \$38 billion of debt.

Instead, we wish to focus on one critical area which may not have received adequate emphasis previously. Based on our practical experience in the Ontario and Alberta electricity markets since their respective market openings, it is our view that for the market to work and pricing to be competitive, the market must be characterized by adequate liquidity; that is, a sufficient number of buyers and sellers.

Adequate liquidity also requires that a sufficient portion of the total electricity commodity cost to medium- and larger-sized users reflects real-time market pricing conditions. Transparent price signals that properly encourage conservation and are not administratively obscured are also essential, of course, if Ontario is to be successful in shaving its severe summer and winter

demand spikes, which require either costly excess capacity or very expensive imported electricity.

Energy Advantage believes that the ideal solution would be a fully deregulated market and that Ontario should avoid the hybrid market regulation that characterized California's failed attempt at electricity deregulation. When energy deregulation has been given the opportunity to work—for instance, in Pennsylvania, New Jersey, Maryland, New York, Texas, many other states and the United Kingdom, and with natural gas throughout North America, including Ontario—it has produced optimal results for the consumer.

If, however, a hybrid market format is to be established, Energy Advantage recommends that at least 60% of the end-user electricity commodity price should be based upon the hourly market. This proportion would adequately encourage reasonably broad market participation by a large enough number of buyers and sellers to provide market liquidity and, therefore, an effective level of competition. Energy Advantage was therefore encouraged to learn that the draft regulation to the act names only the Beck, DeCew, Saunders, Pickering and Darlington generating stations as price-regulated heritage facilities at present.

Energy Advantage also encourages the government to go further and address the concern raised by a number of potential participants on the supply side of the market; that is, that Ontario Power Generation's sheer size relative to the market discourages participation by other parties and therefore inhibits market liquidity.

In terms of Bill 100, Energy Advantage would recommend that the objects of the Ontario Power Authority in subsection 25.2(1) be amended to include the promotion of market liquidity and competition, and that OPA be directed, when contracting, to be mindful of these objectives.

#### 1050

While Energy Advantage understands the self-interest of new-generation facility builders in having long-term, guaranteed and escalating price contracts, such contracts would be inimical to market liquidity and therefore damaging to competition. Contracts of this nature are a rarity in truly competitive markets. This was quickly recognized by the Ontario Energy Board at the establishment of the successful deregulated natural gas market in Ontario.

Ontario should also be very cautious to avoid setting up the OPA as an imitator of the California state long-term electricity purchasing agency, which has caused, and will continue to cause, significant long-term harm to California consumers by entering into very long-term and overpriced contracts.

We conclude by asserting that the government entering into long-term contracts is not a viable substitution for a fully functioning competitive market. The last time this was done in Ontario, power was purchased at prices that were significantly higher than the market. We are referring, of course, to the NUG contracts, which will continue to be a financial burden on the residents of Ontario for years, even decades, to come.

Thank you for the opportunity. I would be pleased to answer any questions.

**The Chair:** We have about three minutes on this rotation. The NDP caucus would be first, but they're not present. We'll go to the government side.

**Mr Khalil Ramal (London-Fanshawe):** Thank you for your presentation. I was listening carefully about your opposing the government and asking the government to price hydro on an hourly basis. I don't understand it. Can you explain to us how that works?

**Mr Houston:** The gentleman from the IMO who was here earlier could have answered this more effectively, but the IMO publishes prices on a five-minute basis, based upon bids that come into the market, reflecting the fact that it costs more to produce electricity when certain higher-cost generation facilities come on stream to meet the peak demands of a given day or the actual summer peak and winter peak demands. They then publish a blended hourly price. So that price that the IMO publishes is generally referred to as the hourly Ontario energy price, even though it's actually determined on the basis of five-minute price bids.

**Mr Ramal:** Do you think it's unfair to the residents of Ontario to have different prices every hour, instead of having a set rate for six or seven months or one year? At least when you plan for a business or a factory, they know exactly how much they're paying for hydro, and they add it to the cost.

**Mr Houston:** Companies that are larger businesses can budget by entering into swap agreements that fix the price of their electricity. But for an electricity system to be responsive and to act in the best interests of consumers with respect to conservation, you have to be able to have the real price of producing the electricity available for people to know. Larger consumers buy their electricity with interval meters, which the Premier is proposing extending to many other users. With the extension of interval meters, more Ontario consumers will be able to see the real cost of electricity and, when it gets very high, both in their own interest and the public interest, will be able to cut the use. In order for that market to work, our paper is submitting, you need to have a sufficient amount of liquidity in the market, a number of buyers and sellers, in order that the price isn't an administered price but is a real price.

**Mr Ramal:** Do you think your approach would be unfair for the small consumer, who has no ability to enter into that agreement as would a big company? As a government, we're supposed to be supporting and protecting the small consumer.

**Mr Houston:** Our focus and our policy recommendation here is on large and medium-sized consumers. We don't pretend to be experts on the residential market, although to the extent that people can get price signals through interval meters, they then will have the ability to affect and help conservation. But we recognize the desire of residential consumers not to have any great variation in their electricity price.

**The Chair:** You have about 20 seconds, Ms Cansfield.

**Mrs Cansfield:** I just wanted to clear up the issue around the hybrid model. The regulated price will be for low volume, 250,000 kilowatts and under. Obviously, your customers are above that and they will deal with the spot market. So I don't understand why you wish to have a totally deregulated—when we have a commitment to the protection of the designated and low volume. Now, they can opt in or out of that program as they choose but, in essence, you're still on the spot market. Are you advocating a day-ahead market or—

**Mr Houston:** Certainly we would advocate a day-ahead market, but what I've seen so far is that we're talking about a percentage of the generation being regulated as opposed to which markets would be regulated. I think there's a big distinction there of who qualifies for a deregulated, hourly-type price. If I'm mistaken in that—we've seen numbers as high as, say, 70% of the market becoming regulated on the generation side.

**Mrs Cansfield:** I think maybe we would have an opportunity to chat with you afterwards, because there isn't the time—

**Mr Houston:** Yes, I'd appreciate that. We haven't had the advantage of seeing this draft regulation.

**Mrs Cansfield:** I'll give you a copy right now.

**Mr Houston:** Thank you.

**The Chair:** Mr Arnott, we'll squeeze in a quick question for you.

**Mr Arnott:** Thank you very much for your presentation and for your advice. Your concluding comment says that we will be paying for the NUG contracts for many years to come, yet in the provincial budget recently tabled, in the budget papers, the government has essentially written off that liability in one fell swoop, about \$4 billion, under what they call "Other Non-Tax Revenue: Net Reduction of Power Purchase Contract Liability," through a rather dubious accounting trick, really. Do you care to comment on that? Obviously, you're suggesting that we're going to be paying for this for a long time.

**Mr Houston:** We wouldn't agree that it's a dubious accounting trick. I understand the government has, in effect, capitalized the cost of the NUG contracts and—

**Mr Arnott:** What would you call it then? It's a contradiction from—

**Mr Houston:** Capitalizing a liability is often done in business, and I guess it's done sometimes in government.

**Mr Arnott:** It has the effect of overstating their revenue this year in a way that I characterize as rather dubious.

**The Chair:** Gentlemen, thanks very much for your presentation today.

#### ONTARIO SOCIETY OF PROFESSIONAL ENGINEERS

**The Chair:** Next I'd like to call forward the Ontario Society of Professional Engineers, Ms Glover and Mr Cragg. Good morning and welcome to our committee.

**Ms Sharon Glover:** Good morning, Mr Chairman.

**The Chair:** Ms Glover, you're leading off then?

**Ms Glover:** Yes, sir. I'm going to introduce Chris in just a moment.

On behalf of the Ontario Society of Professional Engineers, I'd like to thank the committee for allowing us to be here to today and to present our thoughts on Bill 100, the Electricity Restructuring Act. My name is Sharon Glover. I'm the CEO of the Ontario Society of Professional Engineers. With me is Chris Cragg. Chris is vice-chair of the society and also the chair of our energy working group. I'm going to start by talking briefly to you about the society, and then I'll turn it over to Chris, who will present the bulk of our submission.

The society is a member-driven advocacy organization. We were created in the year 2000 to act as the voice of professional engineers in Ontario. We have over 12,000 members and numerous policy committees and task forces, which assist us in contributing to the policy debate.

I'm going to turn it over to Chris Cragg, who will present our submission now.

**Mr Chris Cragg:** Thank you, Sharon. The OSPE energy working group is made up of engineers representing various disciplines within the energy sector. We're proud to say that the professional engineers on our committee have engineering expertise from fields of hydro-electric generation, nuclear energy, gas turbine (cogen), grid-connected renewable energy, plus the environmental sciences.

First, let me say that OSPE is pleased to see that conservation and renewable energy are being viewed as a priority by this government. OSPE believes that conservation and sustainable generation are of equal importance to the economy and to the quality of life in Ontario. It is not enough to solely focus on conventional generation for the future. Only through a combination of both demand-side management and increased generation capacity will Ontario's electricity system remain reliable.

At the time the Electricity Conservation and Supply Task Force released their report, the society indicated our support for the need for a central electricity system planning and implementation authority; the need for pricing at rates that are stable and reflect electricity's true cost; and promoting and evaluating conservation on an equal footing with new supply. We believe that legislative and regulatory changes must be made now to create a stable environment for investment. By moving forward on such things as pricing that better reflects the true cost of power, the government will provide an environment for investment and ensure private sector capital is available for our system going forward. True cost pricing will also restore the financial health of the public power provider—Ontario Power Generation—so it can better engage in rehabilitation, redevelopment and new development on its existing sites.

**1100**

Existing sites with their previous permits and ties to the transmission grid potentially offer the quickest way to address the current supply shortage, prepare for reduced

usage of coal generation and prepare for the massive nuclear generation overhaul projected to start in 2009, as described in the Electricity Conservation and Supply Task Force report. By further using our existing infrastructure, as has been done at Brighton Beach, as is projected to be done at the Beck Tunnel and as has been done by recent restarts at Pickering and Bruce, we significantly reduce the amount of time it takes to bring generation on-line—something that we really need to do because of the current and looming supply shortage.

The problems Bill 100 is meant to address are not political ones; they are social and economic. People need to know that the lights will come on when they flip the switch. Businesses need to be able to operate without fear of interruption and in a stable environment.

In our assessment of the Electricity Restructuring Act we agree with the assignment of forecasting responsibilities; with the creation of the Ontario Power Authority; with the need to price electricity at rates that are predictable and reflect the true cost; with establishing a conservation bureau; and with establishing expert advisory committees.

We'd like to address the areas of the Independent Electricity System Operator, Ontario Power Authority and the conservation bureau, where changes are needed to make these bodies more effective in accomplishing their goals.

OSPE is pleased to see that the Independent Electricity System Operator will be playing an important role in stabilizing the electricity sector in Ontario. The price of electricity needs to be addressed. For too long, consumers have been operating under a false sense of security with rate caps. The true cost of electricity was not being paid, and as a result people started to take for granted that cheap electricity would always be available.

The rate caps of the last decade have had two major negative impacts. First, they have resulted in people being unaware of the need to conserve; and second, they have resulted in a lack of investment in generation since fixing the price severely limits the ability of generators to reinvest in further generation development. We recognize that paying the true cost of electricity is not the politically popular thing to do, but it is necessary.

The advisory committee called for in the legislation is also a good idea. By establishing a panel of experts to advise the minister and the IESO, the bill provides another tool that allows for well-informed decisions to be made.

We believe the bill could go one step further. While establishing the committee is an excellent first step, we believe the proposed law could be more specific and not only set out the formation of the committee but also its composition. We would suggest that the advisory committee be composed of experts in the following fields: nuclear generation, fossil fuel generation, hydroelectric generation, renewable energy, energy conservation, and transmission planning and control. This advisory panel must be made of experts who have no vested interest outside of helping to develop the most reliable and cost-

effective system possible. The importance of this impartiality cannot be overemphasized.

To ensure that the advisory committee is composed of technically competent people who will act in the public interest, we suggest that professional engineers, licensed in Ontario and accountable to the public through their regulating legislation, be mandatory participants. This would provide for equal representation of the various sectors within the energy field and ensure that the IESO and the minister are receiving well-founded information based on a broad range of inputs and ideas.

An additional concern is with the way in which the IESO board and advisory committee are appointed. We understand the need for the minister to appoint the inaugural directors, but there is no mention in the legislation as to how future directors' positions will be filled once terms have expired or unexpected departures take place. In an effort to be transparent and provide stability, we suggest using either the existing public appointments process to fill future vacancies or the creation of a new process that will weigh expertise and qualification and will not be influenced by future political agendas.

Lack of planning for the future is one of the causal factors of the problems that we face today. Long- and medium-term planning is essential to the electricity system in Ontario. Only through assessing what we have and what we will need can it be decided how best to move forward. Establishing the Ontario Power Authority certainly helps to address this problem.

There was a time in this province when long-term planning was conducted and new generation was scheduled to come on-line in an orderly fashion to meet the need. We have moved away from this in recent years, and there have been a number of long-term forecasts indicating that Ontario's supply is inadequate to meet future demand. Current initiatives have, so far, not closed this gap.

While the private sector has much to offer, we cannot expect them to carry the burden alone. Forecasting usage and long-term demand can only be half the answer. Once the need has been identified, immediate steps must be taken to make sure the need is addressed and not just discussed. There is a long lead time for new supply. In the case of nuclear power, it normally takes 10 to 12 years before electricity is actually coming into the grid.

While we can say that the Ontario Hydro model of doing business had a number of problems, we should not overlook the areas in which it was successful. Under the Power Corporation Act, 1990, long-term planning was considered in the mandate of what was then Ontario Hydro. Under the act, Ontario Hydro was given the ability to plan with regard to the generation system and also to work with the municipalities. The same type of aggressive planning regime must once again be instituted in Ontario if we are to tackle the many problems this bill is meant to address.

Establishing an advisory committee through legislation for the OPA will certainly help gather expert advice and ensure that realistic, timely forecasts are available to those who need to make decisions.

Again, as with the IESO, we believe the bill should go one step further and not only set out the formation of the committee but also its composition. We would suggest that the advisory committee be composed of experts, including professional engineers, in the fields of nuclear generation, fossil fuel generation, hydroelectric generation, renewable energy, energy conservation, and system planning. This would provide for equal representation of the various sectors within the energy field and ensure that the OPA and the minister were receiving well-founded information based on a broad range of input and ideas.

The conservation bureau is long overdue. While there has been much discussion about our consumption levels and the rate at which new generation can be brought on-line, little has been done to address the issue of conservation. While encouraging use of energy-efficient light bulbs and appliances certainly helped raise awareness of the issue in the past, we are now in a situation where the PST rebate has been discontinued and no comprehensive conservation strategy exists.

While we look to the Electricity Restructuring Act, it only provides for the creation of the Conservation Bureau. There are no tools specifically mentioned that will help in addressing conservation. There are no mentions of economic incentives and no reduction targets set out. A portion of all electricity revenue should be directed to support this bureau. Increasing environmental pressures and a lack of short-term clean energy options for Ontario will make conservation a key element of Ontario's electricity sector.

Again, we look back to the Power Corporation Act and see that this was once part of the business of Ontario Hydro. The act indicated that conservation of all forms of energy was to be encouraged. Specifically, section 64 of the act listed the safe use of electricity, the improvement of buildings to retain heat, more efficient use of electricity and the shifting of electrical loads from times of high demand to times of low demand as key principles of the program. There was also provision for loan programs wherein Ontario Hydro could lend money and provide incentives for conservation measures. These steps seem fundamental. If they could be incorporated into legislation in 1990, why could these principles not again be adopted into law today?

While the Electricity Restructuring Act, 2004, creates a conservation bureau, there is no mention of guiding principles and no possible incentives in the legislation. These should be added to offer the conservation bureau a sense of direction as well as the tools necessary to fulfill its mandate. Setting a conservation target means little if the tools necessary to attain that target are not present.

In conclusion, the Ontario Society of Professional Engineers is pleased to see the government is making an effort to address the significant problems facing Ontario's electricity sector. The problems that need to be addressed are deeply rooted in the lack of planning and lack of focus on conservation that has dominated the agenda for the last decade. Critical to that planning process is the use of professional engineers qualified in

this field of practice. It does not make sense to believe that a highly technical field such as electricity generation, distribution and control can be achieved without substantial use of individuals highly trained in this technology.

#### 1110

The Electricity Restructuring Act does make progress in addressing the issues that have led to a system that is short on supply and long on demand. While many of the issues surrounding supply and conservation are addressed, the bill should do more. Bill 100 represents an opportunity to do it right the first time and not have to revisit the issue over and over again.

Investment in Ontario's electricity system will be essential to ensuring its long-term stability and sustainability. Investment will only come when stability and higher revenues are brought to the market. Stability not only includes realistic pricing but also the way in which the system is managed. By including as much in the legislation as possible and, in turn, limiting regulatory powers, you will be creating a stable environment in which to invest, where legislation sets out the roles and responsibilities of market participants.

We congratulate the government on introducing this bill and urge the committee to consider our changes seriously.

**The Chair:** You're right on 15 minutes. Unfortunately, there's no time for questions, but we want to thank you for your presentation this morning.

**Mr Cragg:** Thank you very much for the opportunity.

#### BOWATER CANADIAN FOREST PRODUCTS INC

**The Chair:** I now ask Bowater Canadian Forest Products Inc to come forward. Welcome, Mr Campbell.

**Mr Don Campbell:** Thank you very much.

**The Chair:** You may proceed.

**Mr Campbell:** Good morning, and thank you, Mr Chairman, for the opportunity to speak to your committee on behalf of Bowater Canadian Forest Products Inc, a wholly owned subsidiary of Bowater Inc, to provide input to the implementation process of Bill 100. I must say that it is not often that Bowater gets involved directly in the process at this level. That's just the way it is. However, it is not often that a single piece of legislation passed in the Ontario Legislature has the potential to profoundly affect our company's viability in Ontario.

I intend to give you an overview of Bowater's presence in Ontario; specifically, northwestern Ontario. I will cover the unique importance of electricity to Bowater's business. I will describe the specific challenges we face in Ontario with electricity, challenges that have been building over a number of years, not just in the last few years. Finally, I will make some general recommendations to the committee on what we would like you as a committee to pay close attention to as Bill 100 progresses.

I have provided a handout for the committee. In that handout, there is a photograph of our site. This picture gives you a perspective of the size of our pulp and paper operations in Thunder Bay. The site is located virtually in the heart of the largest community in northwestern Ontario. This site provides challenges to operate effectively and with the support of the community residents, and we have succeeded since 1929.

The assets and operation of Bowater in Thunder Bay and the surrounding northwestern Ontario region are a significant economic force in northwestern Ontario. Our pulp and paper complex located in Thunder Bay is the largest in Canada. It produces 1.1 million tonnes of product, both market pulp and paper products, primarily to the North American market. This is a very valuable asset, with over C\$1 billion invested in the last 15 years in both technology and environmental improvements. This operation is clearly world-class.

Two pulp mills produce both hardwood and softwood kraft market pulp for both paper and consumer products such as tissue and paper towels. Three paper machines manufacture both newsprint and base sheet for our coating operations. I must say, however, that one of our paper machines has been shut down for over a year now for economic reasons, not the least of which is the cost of electricity.

New sawmills in Thunder Bay and Ignace, Ontario—a community just west of Thunder Bay—built in a business relationship with the Fort William First Nation, are world-class.

We employ, either directly or through our forest contractors, over 1,700 full-time employees, and this does not include the indirect spinoff jobs or the silviculture contractors who help us to manage our land base.

We are a major private sector employer in the region, providing, both directly and indirectly, significant tax revenue, both on the municipal side and on the provincial side. With investment in the north and our ongoing involvement, we remain an important player in the success of northwestern Ontario.

Now to the challenge that Bowater faces with respect to electricity. First of all, in fairness, I'd like to clarify that electricity is not the only business challenge we are facing in our industry in Thunder Bay. Obviously, you've heard a lot about the wood supply becoming increasingly constrained. Costs to deliver chips have risen dramatically. We've struggled in markets; the US exchange rates, with the recent run-up, have really hurt us. We sell in American dollars. As the American dollar goes, so goes our business.

However, the focus of this discussion is electricity. Our mill is a direct purchaser of electricity from the Ontario market. Our rates remain independently benchmarked as the highest in the North American paper industry. In addition, when compared to our sister mills in the US south, US west and in Canada, we remain the highest by a wide margin. There are those who would say that in the manufacturing base in Ontario industry in general, electricity does not make up a large proportion

of the cost component of the product. At Bowater, this is not the case. At the present time, electricity makes up between 20% and 25% of the total cash costs of our paper products. This ratio is obviously dependent on the other inputs, but it is in that kind of range. The rates have been escalating for years, not just since deregulation, and have risen approximately 25% in the last four years alone.

This increase has been felt despite aggressive action at the mill to mitigate the effect, including maximizing the internally generated electricity that we make on-site from waste products, aggressive shifting of our load to off-peak periods and taking business risks on both our product quality and electricity supply to offset costs. We have been clearly recognized as one of the most sophisticated users of electricity in the province operating directly off the energy market, and it's not enough. As a commodity producer where costs cannot simply be passed on to the consumer, this does not bode well for the future competitiveness of our operations or, probably more importantly, the fierce competition for internal capital investment that will secure the future success of our operation.

I have added a chart in the handout that describes an independent survey of electricity rates for our product, not for regions within the North American markets but for our product and our direct competitors. It's an unbiased survey based on actual experience. As you can see, the Thunder Bay mill is at the very end of the scale. The small arrows in that graph, for those of you who have it, indicate other mills within the Bowater parent company. For a commodity high-energy business, this is disturbing.

There have been recent consequences to the Bowater operation. Escalating electricity costs, in part, have resulted in direct consequences to both the operation—the business—and its employees. Our number 3 paper machine has been curtailed since June 2003. This machine alone produces 25% of our total paper production, and the asset, as an asset, is above average in terms of quality in the industry. The indefinite shutdown of the supporting groundwood pulp mill was announced last week. These curtailments are affecting the employment of a large number of our employees.

Now to a few recommendations to the committee. There are a few realities we accept in the present electricity market. There is the need for temporary market intervention to bring more stability to a previously price-volatile marketplace, to attract new supply and to ensure adequate long-term system planning for our future. I know Bill 100 is intended to deal appropriately with all of these issues, but if, in order to accomplish this, electricity pricing continues to rise, our viability in Ontario will be further compromised.

#### 1120

You have received in the past, from previous deputations, implications that the future market cost could increase by up to 50% or more. I'm not endorsing or saying anything to that; I know you've received those.

Bowater urges you to ensure that common sense prevails to ensure that this does not happen, or the long-term socio-economic impacts to northwestern Ontario due to the effects on industries such as ours will be grave.

Bill 100's implementation clearly has the potential to increase costs unnecessarily in a number of key areas. These include the market power mitigation agreement phase-out and the pricing and allocation of the heritage power base which, my assumption is, that's intended to offset. This includes the replacement—and timeline, probably more importantly—for the coal-fired generation and the cost of the energy to replace it. This includes the management of costs associated with the nuclear asset renewal program and, finally, the costs and effectiveness of renewable energy and conservation programs.

We are already uncompetitive with our peers in the products we manufacture with respect to electricity. Please ensure that adequate time is provided in order to adapt to any future changes required to the marketplace. I recommend that you take a prudent approach and preserve your ability to adjust for the unknowns. There are all sorts of unknowns coming forward in this new world of energy in Ontario, and I just ask that you continuously consider your ability to adjust. Finally, I ask that you fully consider the unique economic realities being faced by companies such as, but not exclusively, Bowater in northwestern Ontario and the impacts that further cost increases will have on our company and the northwestern Ontario region. Thank you very much.

**The Chair:** Thank you very much, Mr Campbell. We have about three minutes for questions. On this rotation, we'll have Mr Arnott first, then Mr Kormos and then the government.

**Mr Arnott:** Thank you for your presentation. Your comments supplement and follow up on the Association of Major Power Consumers presentation of last week and give specific reference to your industry, your sector. Certainly the pulp and paper industry in northern Ontario is an absolute bedrock, core industry that we have to support. We have to work with you to make sure that your continued viability is present for our economy and for the workers in the north. For those reasons, your presentation is very important.

You've again pointed out that the cumulative effect of a number of the government's policy changes may result in an electricity price increase of in excess of 50%. Do you think the government's listening?

**Mr Campbell:** I hope so. I think there has been a large amount of input into this process, and there will be a large amount more. I am not, as Bowater, endorsing that number. I know what the deputations have been. I do know, and I think intuitively we all know, that if we replace lower-cost energy with higher-cost energy, the cost will go up.

**Mr Arnott:** And government policy should be modified to make sure that doesn't happen.

**Mr Campbell:** Yes. I believe and Bowater believes that the government will—the hope is—stay focused on the impacts, not only directly into the electricity market

but the impacts to industry and communities, especially in northern and northwestern Ontario.

**Mr Arnott:** Thank you.

**The Chair:** Mr Kormos, please.

**Mr Peter Kormos (Niagara Centre):** No, thank you.

**The Chair:** For one minute, Ms Cansfield, please.

**Mrs Cansfield:** I wondered if you could give us some idea of how things are proceeding with the cogeneration you've been looking at up at Bowater.

**Mr Campbell:** We're in the queue for all three of the proposals: the DR, the DSM and the one you're referring to. We're in the final stages of the analysis of that. There's nothing more to say, other than—

**Mrs Cansfield:** Maybe you could just explain to the committee the whole concept of cogeneration for Bowater and how it would impact you.

**Mr Campbell:** Bowater, at the present time on the Thunder Bay site, generates about 60 megawatts of its 150-megawatt demand through residual steam from by-products, either black liquor or hog fuel—bark, waste material, sludge and the like. We're looking at opportunities to maximize that through capital investment to get a little bit more out of the mill, primarily to reduce costs and to offset natural gas consumption.

**Mrs Cansfield:** Thank you very much.

**The Chair:** Thank you very much, Mr Campbell.

#### ONTARIO FEDERATION OF LABOUR

**The Chair:** I'd next like to call on Mr Wayne Samuelson, president of the Ontario Federation of Labour. Welcome, sir.

**Mr Wayne Samuelson:** Thank you. It's great to be here. Let me begin by assuring you that while we prepared an outline of our views, after listening to the last presentation I think I'm just going to allow you to read that at your leisure. I know each of you will.

Instead, I want to talk a little bit about what the last presenter talked about and what you've heard over the last while. I should say it's a little bit peculiar for me to come here and say that I agree with many of the positions of the major users of electricity in this province, because often we're on the other side of the table on a whole range of issues. But I think they have raised for you an issue that you need to pay a lot of attention to. You've heard from the Association of Major Power Consumers in Ontario that they're looking at rates going up from 30% to 53%. They've told you that this could have an impact and result in the loss of 140,000 jobs.

Let me give you the other side of that equation, the side that we see at the bargaining table. The previous government made what can only be described as the bizarre policies to move away from literally decades of public power. We see more and more of our employers raising the issues with us about the cost of electricity and the impact it has on our collective agreements and our workers and, frankly, on the viability of operations. You've heard that yourself. So I'm here today to tell you that if you continue down this road you'll hear more of

what you're hearing, and I predict you will see more of what employers are telling us at the bargaining table about electricity.

I want to suggest to you that you need to start over. You need to look at what's worked in this province for literally decades and decades: public control of power, cutting out all of those people who want to put money in their pockets on a service that is so important, not only to our industries and our communities, but to people. Not a lot of people pay much attention any more to what the Liberals said in the election and what they're doing, but I've got to tell you I really thought that when the Liberals were elected Dalton McGuinty was going to follow through on his commitment to ensure that the private electricity market was dead.

I think this government needs to look at what you said. You need to look at what's gone on over the destructive policies of the previous government and move back to what has been a successful partnership between the people of Ontario and the government to provide for public power. I know you've had experts from all over come here. I know you've looked at what's happened in California. There is mounting evidence that this is the wrong direction.

I'm going to close my comments by saying that the decisions this government makes over the next few months will have an impact on generations to come. All I can ask you to do is not turn over the security of my members' jobs to the Enrons of the world so that they can make a few bucks and we can see all of those jobs move outside of this country.

**The Chair:** Thank you very much, Mr Samuelson.

Mr Kormos, you're first on this rotation.

**Mr Kormos:** Yes, it is remarkable, because your comments are so consistent with the comments made by the presenter on behalf of Bowater. The only inference to be drawn from his comments is that if this government proceeds with its plans, which admittedly are going to result in increases in electricity prices, then we're going to see significant job losses—end of story—and jobs that can't be recovered later.

I'm interested in page 3 of your submission, where you talk about the impact of privatization, the North American free trade agreement and GATS. Can you explain that a little bit? What does it do to our future and our capacity to entertain any sense of control over electricity?

1130

**Mr Samuelson:** It moves the control away from the people of Ontario to corporate interests and, frankly, quite likely American corporate interests. It makes absolutely no sense. I've got to tell you that even an unbiased commentator who looks at this would say, "Why would we move to shift that control to people outside of our country, especially when you look back over the last 100 years?" It makes no sense.

If the government doesn't recognize this, they clearly have their eyes closed. It's been raised by experts. It's a direction that they appear to be heading in, Peter.

**Mr Kormos:** What will it mean, for instance, to a generation or two generations down the road?

**Mr Samuelson:** It's gone and you can't get it back. That's the impact. It means control over our electricity by people outside of this country—control over whether in fact manufacturing jobs are able to compete in Canada and what it will cost them to keep their lights on. I think it could lead to shortages. That's what the experts have said. It certainly has happened in other places.

**Mr Kormos:** The participant who preceded you was speaking on behalf of the paper industry, or at least his participation in the paper industry. Down where I come from in Niagara, and Mr Craitor as well—mind you, there is no industry left in Niagara Falls. That all fled over the course of the last decade, decade and a half. But across the rest of Niagara region we've got one remaining paper mill. Primarily, the employers are high electricity consumers, be it steel mills, forges, foundries, whether it's in Niagara, whether it's up in Algoma in Sault Ste Marie or whether it's in Hamilton. Lord knows, we've got a federal government that has refused to implement a steel policy that protects Canadian steel-makers from foreign-dumped steel. How many job losses do you anticipate are in store if this government persists on a policy that's going to increase electricity costs?

**Mr Samuelson:** The major power users talk about 140,000 jobs. I don't know what the exact number is, but I do know this: It's not only the jobs that people lose; it's the downward pressure on their wages and benefits that results from these plants competing internally with sister plants in the United States.

The previous speaker talked about Thunder Bay. Let me tell you, I've spent a lot of time in the last two years in northern communities that are dependent on these resource-based industries. If you think it's devastating to lose that industry in Thorold, think what it means in places like Sturgeon Bay, where the whole community was dependent on one plant, and what it means in many of those northern and northwestern communities.

While that's a long way from downtown Toronto, let me tell you, when I travel there to meet with my members, there is apprehension; there is fear. I think this has all been fostered by the policies of the previous government and, frankly, the buying into those policies of the present government.

**Mr Kormos:** You're talking about this government, then, creating an economic environment that's more similar to Arkansas than the Ontario that you and I grew up in?

**Mr Samuelson:** Let me tell you, this isn't the only one of the policies, Peter—

*Interjection.*

**Mr Samuelson:** Well, you have given me an opening to talk about other policies that make us similar to Arkansas. I can simply say that it's unfortunate that the commitments made previous to the election aren't being followed through on, because we could resolve some of those comparisons.

**Mr Kormos:** Thank you, brother Samuelson.

**The Chair:** Thank you, Mr Kormos. The government representatives?

**Mrs Cansfield:** Thank you very much for your presentation. I look forward to reading your submission.

I was curious around the issue with the position on the coal commitment. Are you primarily concerned about your workers in terms of potential job loss with the phasing out, or are you concerned about the issues of health, and then I guess the reconciliation? If you could help me understand, because I believe they own 4% of the Bruce nuclear plant. So where are your concerns resting?

**Mr Samuelson:** Clearly I have concerns for the people I represent, but I also have concerns on broader political issues.

First of all, if someday you actually get around to closing the coal plants, which I suspect will happen—I don't think it will happen as quickly as you said, because I'm not so sure you can replace those 25,000 megawatts—there needs to be a real look at transition and how you deal with that. I'm not so sure that you should close those until you're absolutely sure you can replace that output, if for no other reason than that it has an impact on the other issues I raised around supply and prices. So that's my view on the coal plants.

I'm not sure exactly where you're going with your question.

**Mrs Cansfield:** Well, it's 7,500 megawatts of coal that will be phased out, and I didn't know if the issue was primarily the phasing out in terms of how it impacts your workers or if it was an issue that, you know—do you think coal should be phased out? Do you believe that it should sustain itself?

**Mr Samuelson:** I think in the long term it probably should be, but you need to make sure you actually have supply in place to replace it.

In terms of the environment, the evidence is there; we all know that. But I don't think you need to do it just to do it. I think you need to make sure you have a supply in place. And frankly, as you move away from public control of the market, those decisions are going to be made by other people, rather than you.

**Mrs Cansfield:** I don't think we're going to do it just to do it. There are health-related issues in the phasing out of the coal. I guess my question to you would be if you would then work with us in that process, because it would be in the best interests of the people of Ontario.

The other question relates to the issue that 4% of Bruce is owned by the Power Workers' Union. You've heard the minister say before—how many times?—that the assets will not be sold that we have here, but that we'll be looking for new investment. So are you suggesting not to encourage that new investment to come into Ontario, which ultimately would result in more jobs?

**Mr Samuelson:** I think in the long term it would be better that the people of Ontario made investments in their own power system rather than counting on external investors from outside the country.

In respect to this ownership by the Power Workers, you'd have to talk to them about that.

**Mrs Cansfield:** I was just going to say, your having rejected the sort of privatization of the Tories, it's curious the sorts of juxtapositions that you have back and forth. That's my last—

**Mr Samuelson:** Kind of like your caucus sometimes, eh?

**Mrs Cansfield:** I suspect that happens in all caucuses.

My other question is around NAFTA. A number of comments have been made around Bill 100, and I was curious as to how you felt Bill 100 made changes in the relationship to NAFTA.

**Mr Samuelson:** I think it's a broader issue than simply this bill. As the government moves toward a competitive and open market, whether you do it slowly or you do it a different way than the previous government, we have all kinds of evidence that that results in NAFTA starting to apply, and therefore all those other problems coming into play.

We've been debating the impacts of NAFTA and free trade now for 15 years, and lots of times it's lawyers and academic studies. I've got to tell you, with my history of being involved in these trade issues for a long time, the proof isn't necessarily what happens on a piece of paper. It's when you drive down the 401 and you see complete industries demolished because of free trade deals. I think that's why we need to worry about triggering the response that opens up our market to more investment from external sources outside Canada.

**Mrs Cansfield:** So you're not a proponent of that?

**Mr Samuelson:** I'm not a proponent of external investing.

**Mrs Cansfield:** Of market forces, of opening up the market?

**Mr Samuelson:** No, I'm not.

**The Chair:** Thank you very much, Mr Samuelson. It was good to have you here.

1140

JOSEPH FIERRO

**The Chair:** I now ask Mr Fierro to come forward. Welcome, sir.

**Mr Joseph Fierro:** Thank you very much. My name is Joe Fierro, and I have with me today Mike Bilaniuk, who works at the Niagara plant group. He's here to support me in my presentation to this committee on this very important matter.

I want to start off by saying that I'm an OPG employee, but I'm not here today speaking on behalf of OPG. I'm also a director in the Society of Energy Professionals, but I won't be speaking on behalf of that organization today; Andy Muller spoke to you on August 9 and did a fine presentation, which I'm sure you'll consider in your recommendations to improve Bill 100. I'm also legally blind, but I'm not speaking on behalf of people with disabilities today.

I'm here to talk to you today on behalf of hydro-electric professionals and supervisory staff who work at Ontario Power Generation and bring to your attention the

opportunities which exist for hydroelectric generation in the province and OPG's role in those projects.

Slide 2, Bill 100: There are some positive aspects to Bill 100. The focus on demand-supply planning is very good. This has been missing for the last five years and we welcome someone taking on this role, albeit there are still some questions about how it's going to be done and the rules around it. But as a starting point, the initial focus on it is positive.

The focus on renewable energy and conservation is good. We do have some concerns around some of the renewable technologies because generally these are not price-competitive, the ones other than hydroelectric, and the introduction of too many of these too quickly could upset the apple-cart, as many have talked about, in the way of pricing. For example, wind is in excess of \$100 a megawatt and this is likely two to two and a half times what the prices are today, and would therefore be of impact to the Bowaters and the Association of Major Power Consumers people because it would fulfill their view that higher prices would come out.

We are concerned with the ability of the government to direct the OPA and, therefore, reduce its ability to truly be an independent organization and make the best decisions for the province. We also have some concerns around the criteria for selecting a demand or supply option, especially a supply option. If you're about to select a gas plant at \$500 million to run at \$90 a megawatt, at the same time shutting down the fossil plant which operates at \$40 a megawatt, you will be placing a significant burden on the industrial and residential users of Ontario that does not need to be applied by shutting down the fossil plant and replacing it with the gas plant. It can be accomplished by introducing clean-coal technology and having the coal plant operate at \$45 a megawatt.

Why hydroelectric? It's clean. It's renewable. Hydroelectric also has no emissions compared to some of the other technologies, including gas, which cannot escape the fact that it does emit as it burns here and has considerably more emissions 3,000 kilometres away as it's removed from the ground. Gas is not emission-free; hydroelectric is.

Hydroelectric produces 33.5 terawatts currently, in 2003, and this is approximately 25% of the Ontario demand. OPG currently has 240 dams on 26 river systems, and these facilities are maintained and operated properly and effectively in the interests of the public and in the interests of our needs in the province.

The current structure of the Ontario Power Generation hydroelectric assets is in four plant groups. These plant groups are geographically based throughout the province, so we have people close to the plants in the local communities generating the power. This will come into play later when we talk about new opportunities and the best way to build and operate those new opportunities.

Hydroelectric plants in 2003 have had a forced outage rating of 1%. This means that these plants are there when the electricity is required. This means that they're reliable

and they also have a proven technology that is essential in the long term. Hydroelectric also contributes \$310 million in water rental payments and in property tax payments to municipalities.

Finally, under the single development umbrella, Ontario Power Generation was recognized for the outstanding stewardship it has shown in managing its river systems by the National Hydropower Authority. This is not the only award OPG has won, but it has won this award for the last five years consecutively. The first year it won, it was the first time this award had gone outside the United States. So Ontario Power Generation has shown environmental leadership in its hydroelectric resources and this has been acknowledged.

OPG's record of managing hydroelectric projects: Since 1990, Ontario Power Generation, and Ontario Hydro previously, has spent over \$1 billion in managing its hydroelectric projects and enhancing the assets to obtain more electricity from these assets—379 megawatts of additional capacity has been added, with a total annual capacity of 724 gigawatt hours in 2003. This is enough to power 72,500 homes. This was done using existing facilities and just getting more out of them. These projects were done mainly at the Sir Adam Beck II station in Niagara and at the Saunders plant in Cornwall. These projects were done using mainly internal resources and managed well. All these projects were done on cost and on schedule, and effectively to obtain the best results from these potential projects.

Future projects at OPG: Within the next 10 years, Ontario Power Generation is planning additional upgrades of its facilities to obtain more megawatts from the existing plants. An additional 174 megawatts are expected to be obtained from projects at the Abitibi River, Little Long, Harmon and Kipling stations, as well as Sir Adam Beck I. These will generate 486 gigawatt hours of additional annual production, enough to power 50,000 homes. The OPG mandate, which is clearly missing, needs to include a role in getting as many megawatts as it can out of its existing assets.

Why OPG should build and operate these new plants: Water is a public resource and therefore should be managed for the public good. This quote from Mike Brown, on slide 7, really shows what happens when that is not the case. Mike Brown, who is the MPP for Algoma-Manitoulin Island, is talking about what happened when Brascan, or Great Lakes Power, took over the Mississagi River and then ran it differently from the way OPG or Ontario Hydro had run it previously. I know this raised considerable concern from both the Liberals and NDP at the time of this event. The quote from Jim Dilusio clearly says it all: They are not Ontario Power Generation or Ontario Hydro; they operate their assets to make money. Ontario Power Generation, and Ontario Hydro previously, operate their assets to balance the energy needs of the province with the environmental, socio-economic and recreational users in the province to ensure that everyone, in the end, wins.

There are two additional points that need to be made here. The addition of a new plant where existing OPG

staff are currently nearby would cause little or no incremental staff, as existing staff could take on those new plants to be built with their existing resources. The infrastructure is also there for OPG to build, bid and run these plants, so that is also a cost saving. It would be cheaper to build and operate these new plants by Ontario Power Generation than by a third party. That is clear and has to be remembered when we go forward.

The other issue is the integrated operation of a river system. When you have multiple owners on a river system, you have a more complicated situation because a river system can only flow in one direction. When a plant releases water, the plant below it needs to be able to receive that. So increased communication and more complicated operations are required when you have the situation of introducing new operators on a river system currently run and operated by Ontario Power Generation.

**1150**

Slide 8 identifies some major projects. The first bunch of those, including the Niagara tunnel, is in Appendix A in more detail. OPG has done some significant work on all those projects and should be allowed to continue to do work and carry those projects through to operation. All those projects there, except for Sir Adam Beck III, are cheaper than gas or wind. It's important to remember that. When you're trying to minimize the impact on consumers and industrial users, you choose the lowest-cost alternative of the projects. You don't select one just because of some commitment to a gas company.

The projects lower down on the slide, like Little Jackfish, Abitibi River and Moose River basin, are included in Appendix B. This is a list of projects that require additional work but are still potentially viable.

In conclusion, OPG has a good record for managing projects and this has to be recognized. Ontario Power Generation's mandate needs to be clear. It should not only be the keeper of heritage assets but should be taking full advantage of its current fleet of assets and getting every megawatt out of those plants that it can. The introduction of new plants should also be part of OPG's role. They can do this effectively because of existing resources on the ground that can operate these plants and the infrastructure. This will minimize the cost impact to consumers. I think it's important that OPG be given the role and the mandate to further explore the projects in Appendices A and B and carry to completion any of those that are economically viable.

I thank the committee for giving me the opportunity to speak today. If there are any questions, I'd be glad to take them now.

**The Chair:** Thank you very much, Mr Fierro, for a very thoughtful presentation. We have about four minutes. I'd ask government representatives if they have a question.

**Mr Ramal:** Thank you for your presentation. I have a question for you. From what I understood from your presentation, you believe that everything has to be within the OPG; in order to create renewable energy, it has to be within that company. I wonder if you know that Ontario

Hydro has a total debt of about \$3 billion. What's your recommendation on how we can come up with the money to expand and have sustainable renewable energy in this province?

**Mr Fierro:** The basic fact that everyone ignores about that debt is that for 20 years the people of Ontario and the industry in Ontario have benefited from low rates. Low rates have caused the debt to occur. That money did not go into shareholders' pockets; that money did not go into someone's private Swiss bank account. That money went to build these generation assets and fund the operation of those plants. We did not recover enough because we were told what the rate would be. The fact is that we didn't charge enough because we were told not to charge enough. This has caused Ontario to flourish and attract tons of industries in the last 20 years.

So we paid for it. Now we're paying for it by a debt retirement charge. Ontario Power Generation can build these projects on cost and on schedule and I'm supporting their producing the ones that are economical. I'm not saying they should do all renewables. I'm talking about the hydroelectric operations they currently have being expanded. Wind and solar and all that stuff, introduce them in small doses so you don't impact consumers. I'm not saying that Ontario Power should do all renewables; only the hydroelectric part that is economical.

**Mr Ramal:** How can we come up with the money? As you know, we have a problem in health care. We introduced a health care premium and the whole province was upset about it. To fix and expand OPG would require billions of dollars.

**Mr Fierro:** I think if you take a look at some of these projects, the economics pay for themselves. What's going to happen—in 1999 the province removed itself from certifying the OPG debt. OPG will play in the market just like anybody else: borrow the money on their credit rating and build these plants if they can do it. I'm telling you, they'll do it cheaper because there won't be profit, there won't be infrastructure that needs to be built and there won't be ongoing operations that have to be added because they already have the people on the ground. It's a slam dunk. It's clear, it makes sense and I think you need to consider it.

**Mrs Cansfield:** Thank you very much for your presentation. I just wanted to acknowledge that the minister has already identified looking at all options vis-à-vis water. The water association folks have been in.

But my question is—around your supply in Appendix B, most of these projects require flooding—are you advocating flooding instead of run-of-the-river?

**Mr Fierro:** I think what I said is that the projects in appendix B require further research. Some of these floodings may be reasonable and some may not. Additional work and a full EA on some of these projects will be required. In that, we would involve community groups and make sure everyone has a say in the project. Those that are economically and environmentally acceptable should proceed; those that are not could be considered for run-of-the-river or the sites would remain untapped.

At some point we need to establish where this new power will come from. In the event that some unused piece of land may be required to be flooded, that may be a minor price to pay as compared to building pipelines for gas and unnecessarily causing increased prices for a lot of consumers.

**Mrs Cansfield:** I'm not intending to take the attitude of shooting the messenger, but you're advocating that OPG be given the mandate to further explore the potential of hydroelectric, yet many of those sites which require extensive upgrading have been neglected by that same company for a good number of years. Again, maybe it's not within your particular purview, because you're not at the level which made those decisions, but it certainly is something this committee would have to consider.

**Mr Fierro:** I have a perfect answer to that. Bill 35 tied our hands. We were supposed to get smaller. So in 1997 and 1998, all that Macdonald stuff—we sat idly waiting for some direction. The direction in 1999 was to get smaller. We had to give away one of our river systems for \$340 million when the cost to build those plants would be \$700 million. So our hands were tied by that legislation.

**Mrs Cansfield:** By that particular bill.

**Mr Fierro:** Would we have done these projects? Yes, we would have done them. The Beck tunnel is one we've been considering for years. The problem is that we've been blocked by government as opposed to being helped by government in pushing some of these projects through. With your support, we can do these.

**Mrs Cansfield:** So you're really advocating that politics stay out of the energy sector.

**Mr Fierro:** Without a doubt.

#### FRANK KEHOE

**The Chair:** I now ask for Mr Kehoe, please. Welcome.

**Mr Frank Kehoe:** My name is Frank Kehoe. I'm a private citizen at this time, but during the course of my career I was chairman and commissioner of Orillia Water, Light and Power for 19 years. I have a lot of disagreement with the previous presentation.

In order to shorten things up and to give you a half-decent lunch hour, instead of reading my presentation here I hope that you would read the presentation and go from there.

My presentation essentially is in three thrusts: the effective use of Orillia as a long-standing utility—of course, Orillia predates the former Hydro-Electric Power Commission and Sir Adam Beck by some eight years, so we've been in the power business for a long, long time. We certainly were the first utility in Canada that was municipally owned to take on hydraulic generation. The first major event of the utility was to pioneer long-distance transmission, which had never been tried in North America. So that went on to the Hydro project, and the Hydro project was able to follow in Orillia's steps.

Prior to the implementation of Bill 35 and the change in the effective use of municipal public utilities, the Orillia utility had a number of projects pre-engineered and on its planning stage. Nine of these were hydraulic or water power; one was using a gas turbine. The gas turbine that was explored was a follow-up to a site that Orillia had purchased immediately adjacent to the Trans-Canada pipeline. Knowing in the future that this might be an activity, they located a substation on the property and transmission lines to the hydro TS as well as to the city of Orillia.

#### 1200

This project is a gas turbine, using the General Electric CFG80C2 engine, which is the engine that powers the 747—a pretty dependable engine, if that's a consideration. The output of that plant is in the neighbourhood of 43 megs, as a stand-alone plant. As a cogeneration plant, adding steam to it as well, that can be increased by another 8 megs. But that was never a viable option at this particular time. It's a non-polluting gas turbine, inasmuch as the pollution is well under 25 parts per million. So it was a good entity.

The power sites that Orillia currently owns are Minden 2, Horseshoe Falls—keep in mind that Orillia has three existing generation plants: one located downstream on the Horseshoe Falls in Minden; one located at Swift Rapids on the Severn River; and Matthias, located on the South Muskoka. These plants exist in addition to the plants I just spoke about.

A plant that is completely pre-engineered is Minden 2, above the Horseshoe Falls. Cook's Falls on the South Muskoka River; Crozier Falls on the South Muskoka River; Sandy Gray on the Musquash River; and five individual plants at Farm Rapids on the Magnetawan River—they all, of course, can't be developed by Orillia. Some of them are in the long-range future, but there are at least 50 megs that can be developed within five years.

The second thrust of the presentation is the problems created by Ontario Power Generation. On the South Muskoka River is the most upstream plant, a plant that is capable of being redeveloped to increase its capacity. But below the plant, we have Ontario Power Generation's Trethewey, Hanna Chute and South Muskoka. All three of these plants cannot take a refurbishing, or the two additional plants of Cook's Falls and Crozier, inasmuch as we would pass 43 CFF down the river, and they, in turn, can't put it.

So for at least 25 years, we have endeavoured, through Ontario Hydro and Ontario Power Generation, to either have them redevelop the sites or sell the sites to Orillia Power. That has just fallen on deaf ears. They haven't made a move. Unless the potential of the river is used, then everything is wasted. I believe they are using as their excuse now that the Minister of Energy is not allowing them to redevelop.

A little bit about the power rates that have existed in Orillia over the years: From 1904 to 1907, it had the cheapest rates in all of North America; from 1917 to 1924, the cheapest rates in all of Canada—keep in mind

that the Hydro-Electric Power Commission was established in 1906, and not even it, in the big scheme of things, could compete—from 1925 to 1950, with the exception of a four-year period, the lowest rates in all of Ontario. When Bill 35 was open, and for the years prior to that, Orillia stood as having the second-lowest rates in all of Ontario, second only to Fort Frances. Fort Frances received all of their power from Boise Cascade, a plant that gave them the power. I would expect the main reason is that Boise Cascade owned the toll bridge that ran to International Falls in the USA, and if they would keep their hands off that bridge and allow Boise Cascade to collect their tolls, then they could enjoy low power. That was the scenario on that side.

The third thrust was when Bill 35 was introduced. It introduced great things for the development of power. It allowed the utility to operate under the Corporations Act. Prior to this, Ontario Hydro would not allow sinking funds, reserve funds. Ontario Hydro would not allow joint ventures or anything in that regard. There could be no cash in the bank. We were restricted. We only joined Ontario Hydro in 1954 because they lobbied our electorate that they could produce cheaper power than in going on to develop Minden number 2. They were partially right at that particular time, because they had just brought on Pine Portage, La Cave, Des Joachims and R.L. Hearn, and refurbished Sir Adam Beck. So they had lots of power at that particular time.

The good that came out of Bill 35 was great in all of the points but the single entity that said the power was owned by the municipality, in the utility. We'd all gone through that by six referendums of the people, the most democratic process we could use. Based on those referendums, the decision was, "Council, keep your hands off." In Bill 35 they said, "OK, the ownership is on their end, and city council will control its destiny." So here we are in Orillia under the Corporations Act, and we give them a fat parcel of money that we supposedly owe. The utility's completely out of debt, doesn't owe one single penny, not one cent. From its inception in 1898 through to 2004, not one penny ever came from the general revenue of the municipality; all of the money came from the electrical consumers. But now, with that little lynch in the legislation, we changed from a very proactive utility related to generation to a utility that became a cash cow to the municipality. That is one segment that has to be changed in Bill 100. Put this back on the ground; recognize that the people of Orillia have spoken. The electorate have gone through this by resolution, and they are saying the complete opposite of that segment of Bill 35. So that has to be cleaned up.

The last segment to consider in the run of the river is something that's probably out of your control. There are two plants on the Severn River, one of them OPG's, the Big Chute, and our Swift Rapids plant. The federal government, through Parks Canada, controls the rule curve for Lake Simcoe and Lake Couchiching, and they don't operate by common sense. Generation can best control that rule curve. They come around on a pre-determined calendar date and say that it's time to open

the dams and waste that water. We're saying that something has to be done in intergovernmental relations that will correct that, put a realistic rule curve here now, at least on those two plants.

That, ladies and gentlemen, is the summation of my presentation. Hopefully I'm under the 15 minutes. I'm open to any questions, and hopefully you can have a good lunch after that.

**1210**

**The Chair:** Mr Kehoe, you're under by two minutes, so we'll have two minutes for questions. On this rotation, Mr Arnott, you're first.

**Mr Arnott:** Thank you very much, Mr Kehoe. I really appreciate the history presentation you've offered as to what has happened in Orillia over the years. I have a lot of family in Simcoe county, but I wasn't aware of all the historical facts that you presented and the good record of management and service that has been provided by the utility that you used to run as chairman. You deserve a lot of credit—

**Mr Kehoe:** Thank you.

**Mr Arnott:** —and thank you very much for your advice and offering your opinions to this committee. I don't have any questions, but thanks again.

**The Chair:** The NDP not being here, Ms Cansfield, the parliamentary assistant.

**Mrs Cansfield:** Thank you very much. Your presentation was excellent and a good opportunity for us to learn about how distribution companies, or utilities, as we used to call them, used to work. The issue around freedom of information has been identified in Bill 100, and that will be removed so that you can in fact access the information. That was one of your points here.

The other point: I guess I'd need a little more information about the federal government issue around the—what did you call it?

**Mr Kehoe:** The rule curve.

**Mrs Cansfield:** The rule curve, and how they would drop in occasionally and say, "This is the day to do it," as opposed to being based on what issue?

**Mr Kehoe:** The rule curve is a means whereby they can control the Lake Simcoe-Lake Couchiching basin, essentially to be able to handle the snowfall during the winter months. But instead of taking that water down in December, they take it down in September. What we're saying is, if that water was to go through the generation plants by December, when they want the lake down, we'd have created effective use of that water; it wouldn't have been wasted. Hence, we don't waste any water.

On the Severn River, water rental is a federal government issue since it's part of the Trent Canal system, whereas the rest of it is a provincial rental on water.

**Mrs Cansfield:** Thank you very much. I appreciate that.

**The Chair:** Thanks very much, Mr Kehoe. We certainly appreciate your input today.

The committee will now stand adjourned. I ask people to get back as close to 1 o'clock as possible, but I do want to discuss a minor issue with members.

This afternoon we actually have two vacancies, at 4:15 and 4:30 pm, and the clerk tells me that Mr Moreau can't be here until a quarter to five due to business commitments. It would mean the committee would be sitting here between the conclusion of PPG and waiting for Mr Moreau at a quarter to five, or we could ask Mr Moreau to provide us with a written submission. The clerk could contact Mr Moreau this afternoon, and that would have us conclude this afternoon after the presentation by PPG Canada Inc. I would just ask for some guidance from members.

**Ms Wynne:** I guess the question would be how concerned he is that he have an opportunity to present, given that he's on the list. That would be my concern.

**Mrs Cansfield:** Is that the only accommodation we can make? Can we offer him another—

**The Chair:** The clerk did call this morning and asked whether he'd be available for 4:15, but due to business commitments in Mississauga he cannot be here until a quarter to five. It's impossible for him to arrive here earlier.

**Mr Arnott:** I'd very much like to meet the individual in question, but I think it would be reasonable to at least extend to him the invitation to submit his comments in writing and give him the assurance that the committee will undertake to review his written submission, assuming he has a written submission prepared, and give him that option.

**Ms Wynne:** I guess the question is, if he doesn't want to do that and we've told him he has an opportunity to speak—

**The Chair:** Then we'll be here for him.

**Ms Wynne:** Then we'll be here at 4:45, yes.

**The Chair:** We'll ask the clerk to contact him and provide to him the two options we've just outlined.

**Ms Wynne:** Or he could come to Clarington, couldn't he, if he wanted to?

**The Chair:** Or he could come to Clarington. We now have three options. That's terrific. Unfortunately, I can't consult with the member for the NDP, because he's not here. So we do have some concurrence, and the clerk will proceed.

We'll see you as close to 1 o'clock as possible. Thank you very much.

*The committee recessed from 1215 to 1307.*

#### OSIRIS ENERGY CORP

**The Chair:** Next we have the Osiris Energy Corp. You're Mr Kourtoff?

**Mr John Kourtoff:** Yes, John Kourtoff, and I have André Mech here as well.

**The Chair:** Welcome, gentlemen. We're glad you're here this afternoon. You have 15 minutes, and you can start your presentation.

**Mr Kourtoff:** Ladies and gentlemen, members of the standing committee, good afternoon and thank you for the opportunity to take part in today's proceedings. My name is John Kourtoff, and I am president and chief

executive officer of Osiris Energy Corp. To my right is André Mech, vice-president of interconnect and environmental affairs at Osiris Energy.

Osiris Energy is unknown to most of you. We are strongly committed to renewable energy and have two very large projects located in Ontario, which will have an impact on the supply of electricity in Ontario.

Let me open by saying that we applaud Energy Minister Dwight Duncan's tabling of Bill 100 and consider it an important step in developing a complete set of mechanisms that fit within what we refer to as the 5Rs: (1) refocus the direction of the entire electricity and energy sector; (2) rationalize what we are doing and why we are doing it; (3) reorganize and coordinate the regulatory environment; (4) reinvigorate the electricity sector and economy via a coordinated vision; and (5) retest each vision, policy, procedure and action by its ability to further the goals and requirements set out in points (1) through (4). However, we submit to this committee that several other mechanisms, working in unison, will be required so that the maximum benefits from Bill 100 are obtainable.

I know that it is absolutely necessary to balance good fiscal, social and environmental stewardship to come to solutions that will stand the test of time and provide a framework for the lasting solutions that the public expects and deserves.

We strongly believe that many environmental groups need to accept that humans are part of the environment and not a distinct and separate entity. We may have a higher duty within the environment due to our ability to reason and harness more of the earth's resources than any other species, but we are part of the environment nonetheless.

All of us, from ordinary residential consumers to large industry, have lived under a regime of artificially low electricity rates for many years. This has resulted in less emphasis on conservation and, most recently, a shortage of supply. According to several studies, the true average price of electricity in Toronto would be 9.65 cents Canadian per kilowatt hour if all of the debt incurred to develop generating assets were amortized over normal commercial payment terms. Prices in Germany, by comparison, average 20 cents Canadian per kilowatt hour.

Bill 100 is an important step in the process of depoliticizing the electricity price. I am sure that Ontario taxpayers would prefer to see the money that is now going to subsidize electricity consumption go instead toward service improvements, tax rate reduction and debt repayment.

We are in the renewable energy business, but we favour a balanced portfolio approach to energy and electricity generation in the province of Ontario.

Of course, renewable energy—wind, photovoltaics, hydroelectric power and other yet-to-be-devised sources—should be nurtured to grow rapidly to become a large and reliable provider of energy. A number of coordinated steps will need to be taken to achieve this goal.

Nuclear energy has been an important source of baseload electricity for many years now and should

continue to be a significant part of the energy portfolio going forward. It should not be demonized and used as a whipping boy for the ills of the entire electricity industry. The Candu technology, using heavy water and offering more layers of safety, may cost more than competing nuclear technologies, but it also has many advantages as a world-leading solution. We recognize that spent fuel disposal is a difficult, long-term issue, but in a world where no energy system is perfect, the physical size of the problem is small in comparison to disposing of toxic fly ash or sustaining the effects of global warming. The nuclear industry, government and private sector co-operation can solve these problems, given the appropriate resources.

As with almost every economic activity, the challenge is not how to create more—more customers, more volume or more electricity—the challenge is often how to use what you have more efficiently. Ontario produces lots of power; the problem is that we can produce a lot at night when we don't need it. The efficient development and use of storage technologies like pumped storage and, to a lesser extent because of the cost, hydrogen systems, in conjunction with nuclear generation and intermittent source renewables, is the most important development that Ontario can undertake in the short term to “time shift” off-peak generation to on-peak use. Ontario is almost totally devoid of ways to time-shift supply. For example, of nearly 200 major pumped-storage sites around the world, only one exists in all of Canada. The United States has made good use of this technology as a complement to its nuclear plants. We have not even started.

There has been much discussion concerning electricity generation from petroleum and derivative sources such as oil and gas. As the charts in appendices A, B and C to this document show, the stored supply—ie, provable reserves—of both is declining rapidly as our depletion rate increases. As we can all understand, this situation is unbalanced and therefore untenable in the medium and long terms. In the short term, only a rise in price to world levels will clear the market, or, as it is referred to in economic terms, properly “ration” a scarce resource.

Coal prices have risen between 60% and 65% over the past couple of years. The average price of a range of petroleum and derivatives has risen 55.1% in the one-year period up to the end of July 2004. Natural gas prices have risen by a factor of two or three times in the past couple of years. As supply contracts that average about three years come up for renewal, these input prices must be passed on to the electricity consumer via price increases if we expect conservation of dwindling resources and the growth of a significant homegrown renewables industry.

We firmly believe that a broad, bold and complete vision of where we are heading is required. I have always referred to this as the Kennedyesque vision. Kennedy challenged his nation as very few leaders have in the modern era. His challenge to his nation to send a man to the moon and bring him back safely before the end of the

decade required the development of entirely new technologies, industries and ways of thinking that we all enjoy in our everyday lives without actually knowing where their genesis was. We believe Ontario has all of the necessary talented people to provide the lasting solutions we need. All we need is a coherent vision and the appropriate policy directives and signals to back it up.

Sir Adam Beck had that vision. His statue, located not far from this room, challenges all of us here today to develop a new vision for the future in the same way as he did nearly 100 years ago.

We would propose a Kennedyesque vision statement as follows: “Ontario will build the necessary market and regulatory mechanisms so that within 10 years a minimum of 60% of Ontario's electricity generation is from stable, renewable resources. By the year 2020, Ontario will become the largest diversified ‘electron provider’ in Canada, and will export to our neighbours. Via an integrated east-west transmission grid with Ontario at its nexus, Ontario will strengthen Canadian energy sovereignty, and thereby economic and political sovereignty.”

Note that I include large hydro in this definition, which already makes up approximately 28% of Ontario's electricity, so the 60% target is not as unrealistic as it first sounds. It is aggressive, however, and is a target that can only be met with a concerted effort and plan in place.

Back to the 5Rs:

(1) Refocus: The effect of such a stance on refocusing is obvious. Refocusing, using a portfolio approach to renewable energy generation, would provide economic benefits, direct and indirect, of \$450 billion spread over 15 years once economic spinoff effects are included.

The creation of Kyoto credits in such a system would be worth billions more, once made fungible via an exchange mechanism, and reduce implementation pressures while phasing in new industrial standards for emitters and automobiles. This would reduce economic dislocation during the economic changeover that is coming in the energy sector.

Environmental, health and social benefits would be substantial and further make Ontario the envy of the world as the place to live and grow.

(2) Rationalize: We must rationalize what we are doing and why we are doing various activities. This means a continuing role for regulation, with clear demarcation of jurisdictions. There should be no grey areas or overlap where policy enforcement mistakes could occur. Duplicated, conflicting and unnecessarily hindering regulations, both provincial and municipal, are now retarding the growth of electricity supply. In the same manner that zero-based budgeting is widely used, I believe that zero-based regulation should be enforced. This is where coordination comes into play.

A single window mechanism within the Ministry of Energy should be created to assist renewable energy projects in working through the existing system and the new system that will emerge from the government's activities over the next couple of years. Although it may sound contrary to the goal of reduced bureaucracy, we

propose that several interministerial working groups be set up to coordinate regulatory and legislative activities to reduce bureaucracy and streamline processes. The working groups we initially propose are energy, finance, environment and MNR; a second group could be finance, energy and environment; and a third group could be energy, environment and MNR. Additional groups could be created or removed as required.

(3) Reorganize: We need to reorganize and coordinate the regulatory environment so that a clear message is sent to the public, the electricity industry, ratepayers and investors in the Ontario economy.

We believe that the following mechanisms must be developed so that Bill 100 is successful and efficient in meeting its goals:

The OPA must be considered as a facilitator to enter into long-term PPA contracts and then “sell” these contracts into energy securitization pools that in turn sell the units to the public via investment firms. These units would be listed on the TSX or other mechanism and openly traded.

A best-of-breed on-line wholesale electricity trading mechanism was set up several years ago between the world-renowned Fields Institute of Mathematics at U of T, about half a kilometre from this room, and a private sector partner. We do not need to look elsewhere. The solutions are here.

(4) Reinvigorate: Reinvigorate the electricity sector and economy via a coordinated vision for the long, medium and short terms that does not look at political expediency as a solution to anything.

We believe the existing tax credit benefits now given to labour-sponsored investment funds, which have been ineffective at providing new energy investment, should be extended to a new entity that we refer to as renewable energy development funds. These development funds would have to be invested in Ontario in any qualified renewable energy projects developed in Ontario. No one renewable energy source would be favoured over another. Appropriate PPAs and financing would have to be in place for the project to qualify to receive the tax benefits. We believe that this refocusing and rationalization of existing financial resources would provide the maximum impact in the energy sector.

Another part of the rationalization is the ability of renewable energy projects, or REPs, to have a Canadian mechanism to trade emission credits. The ability to make fungible emission offset credits would either lower the cost of capital or increase the rate of return and thereby make REPs more able to attract the necessary capital to develop the projects.

Ontario has not done enough in this regard. A best-of-breed greenhouse gas exchange, GHGx.org, located here in Toronto, could be used to export Canadian Green-keeping know-how to the world. This creates momentum in the Ontario economy in addition to secure, well-paying green jobs and revenues.

We propose that the Ontario government actively pursue an industrial strategy to encourage advanced

renewable energy technology companies that are located in Europe and elsewhere to locate in Ontario to both meet demand in Ontario for their goods and services and also use the economic strength of our local markets as a springboard for the wider Canadian and North American markets.

(5) Retest: Retest each vision, policy, procedure and action by its ability to further the goals and requirements set out in points (1) through (4).

A yearly review mechanism should be set up through a legislative formula, with the results to be submitted to an oversight committee.

The Provincial Auditor should be asked from time to time to provide a quantification of the costs and benefits to Ontario of Bill 100 and the other mechanisms that will be set up to re-architect the Ontario energy industry, and report back to the Legislature.

**1320**

In summary, we are not here to ask for changes to any specific sections of Bill 100. Rather, we are emphasizing the need to consider Bill 100 as part and parcel of a series of mechanisms that need to be developed in parallel, and that these additional mechanisms must be considered in drafting regulations to implement Bill 100's intent.

We believe that, through this legislation, the province has the unique and singular opportunity to secure its energy sovereignty and restore its competitive energy position well into the future. As we see it, Bill 100 is an essential linchpin in the development of several mechanisms that are interconnected and necessary for the functioning of a stable, transparent, efficient and plentiful electricity sector in Ontario.

**The Chair:** In this round of questioning, we have you first, Mr Kormos.

**Mr Kormos:** No, thank you, Chair.

**The Chair:** The government side, if there's a question. We have about two minutes.

**Mrs Cansfield:** Thank you very much for your presentation. It was excellent. You had some really innovative ideas that we will take back and pursue with the ministry, particularly around the issue of renewables and some sort of opportunity to invest in renewables. I've heard from many individuals who say, “I have a small amount of money. I'm very interested in renewables. I'd like to invest. Is there a mechanism?” So I think it's really worthwhile exploring, and I thank you for that very innovative idea.

**Mr Kourtoff:** Thank you for your comments. The LSIFs have been essentially just a job-creation project for the people who manage them, because they haven't fully invested the funds. CSBIFs were created to reduce their penalties, and now they're gone. So we see no purpose—and if there's going to be a focus, then focus it on an issue that the province has deemed worthy of the funds.

We feel that the emission credits issue, though, which maybe André can speak to, is really a much larger issue going forward, with its impact, because of the ability to have capital flows based on the presale of those credits.

**Mr André Mech:** Emission credits are fairly interesting. If we take a look at emission credits by them-

selves, to each one of us as individuals, it's really not a big deal. We could probably meet our emission credit mandate with \$30 a year. So to individuals, it's no big deal. But if you put that in a significant economic package, all of a sudden these credits do provide a tremendous incentive, maybe to a large energy provider or run-of-river, to offset current high-emission energy providers.

So the government should probably take a look at what size or what package emission credits should be provided to the sector. Also, how do you trade those in a truly transparent manner in the public sector? It's much like government debt. We're all very familiar with the province of Ontario bonds. We grew up with them. That's really traded government debt that's done through the public sector. I think we could do the same thing with emission credits and provide incentives to industry.

Much like Dalton McGuinty and the minister said, we're looking to incent the industry to change. This is one way of doing it within the confines of an agreement that the government has already signed.

**Mrs Cansfield:** Maybe you could help us by clarifying emission credits, both for the people who are watching this committee and the committee members.

**Mr Mech:** In the United States, they trade sulphur dioxide and nitrous oxide. They've been doing that with sulphur dioxide since 1992. With the signing of the Kyoto Protocol, we're all fairly familiar with the fact that we're going to have to limit carbon dioxide production. People who exceed their carbon dioxide quotas will be able to sell those to industries that will not, for financial reasons, be able to do it. In some industries, there will be very solid, valid business reasons why they should not implement emission reduction at this time. It may not be economically viable. So they can purchase credits to offset their obligation. That's the trading mechanism.

Currently those trades tend to be bilateral: two people get in a room with a piece of paper and say, "You reduce yours, and I'll buy those," and that's it. But that's not a true market. A true market is where everybody can get in. A corporation can sit there or a CEO can say, "Do you know what? Is that the cheapest price? Can we get that somewhere else? Can we offset that? Can we buy futures so that we can provide investors with security? Or do we want to be true to our corporate mandate? We're a risky corporation, so we're going to see what happens." Provide that opportunity to industry and let industry decide. If you do that in significant economic units, buying carbon dioxide for a number of years forward takes away risk. But also, if you're selling carbon dioxide, it provides the seller with a renewable source of income to offset the cost of implementing a change to meet climate demand, and also meet the requirements of energy.

**Mr Kourtoff:** One last point on that: In the entire situation with Kyoto, what a lot of people don't realize is that Kyoto grew out of the Montreal protocol, which was sulphur dioxide and nitrous oxide. So it really was a Canadian mechanism; Kyoto really grew out of a Canadian mechanism. For 40 years, we've traded on Lester B Pearson's model of Canadians as peacekeepers. It

might be the time for us to renew that and to be greenkeepers. That might be a more interesting model going forward.

There's a lot of business to be done this way, and it's more of a benign business than alternatives. So we would look at that. It may challenge the Premiers, who have asked to talk about lowering interprovincial trade barriers. Well, there are none yet for greenhouse gases and other gases in Canada, and that may be the start of a way of showing co-operation on a countrywide basis.

**The Chair:** Gentlemen, thanks very much for a very thoughtful and informative presentation.

#### MATTAGAMI RIVER DEVELOPMENT PROJECT TEAM

**The Chair:** I now ask the Mattagami River Development Project Team to come forward. Mr Chilton, Mr Dottori and Mr Walsh, please. Before you make your presentation, could whoever is speaking identify himself for Hansard, please.

**Mr Paul Dottori:** Hi. We're with the Mattagami River Development Project and we're here to invest in renewables. My name is Paul Dottori, corporate director of engineering for Tembec. With me is Ed Chilton, with Moose Cree First Nation, and Jack Walsh, who is representing Tembec as well.

We've been working on this project to develop an important renewable resource to deliver more power to the Ontario grid. We'd like to provide a brief overview of the project. Recently we met with key stakeholders in our communities in northern Ontario—mayors, chiefs, councils, regional economic development committees from Moose Factory and Moosonee through Kapuskasing, Hearst, Smooth Rock Falls, Timmins and Cochrane—and we were urged to review this project with this committee.

Our corporation is a multi-stakeholder partnership put together to develop sustainable power in northern Ontario. It's a partnership between Moose Cree First Nation, SNC Lavalin and Tembec. SNC Lavalin is a world-renowned construction and design company in hydro power. Tembec is an integrated Canadian forest products company with over 4,000 employees in Ontario. Mattagami River is within the traditional lands of the Moose Cree First Nation.

The current Ontario supply gap that's forecast for 2008 is approximately 7,500 megawatts based on the coal exit strategy. This project would provide 384 megs of clean incremental hydro power through increased generation at four existing hydro sites.

Here's a photo of one station. The plan would be to increase the size of the existing station—new foundations, building extension and tying in to the electricity network. One of the stations would be completely redeveloped—it's the oldest of the four—and a new station would be built just downstream from the existing station. Two other stations would be similar to the first, with each getting one extra hydro turbine.

Overall, this project supports the new vision for Ontario's electricity sector. It's fast to market, in that we

have an organized partnership. We initiated ministerial briefings last year. A detailed design is underway. The partners are ready to take on some PPA contracts. With the OPA, there's an opportunity there as well, as we see it, for PPAs. The financial markets have been prepared for the investment. So far, we've received some very good feedback. It is new, clean generating capacity, an additional 384 megs of hydro, which supports the provincial government's coal exit strategy.

### 1330

Private sector investment is important to this project. The capital would be raised from the private sector. We have expert financial and technical partners. We're willing to take on long-term contracts and, obviously, that provides a shared risk with the private sector.

It's very important to the north. This project would very strongly support regional economic development: up to 120 direct construction jobs; approximately \$100 million in local contracts; over 250 regional construction jobs. It would provide improved feasibility for further resource development in the north. It's a strong opportunity for Moose Cree First Nation employment. Northern Ontario municipalities and chambers of commerce currently strongly support the project.

I'll let Mr Chilton discuss the environmental footprint.

**Mr Ed Chilton:** Currently, there's an existing EA that will expire in June 2005. We look on it as being able to improve the environmental footprint of those four existing stations. We're modernizing the oldest of the four stations, which was constructed in the late 1920s. We would convert what is basically wasted energy spillage into electricity.

Currently, there is an existing Adams Creek diversion where all excess waters during high peak periods flow around, and that has caused extensive erosion of Adams Creek into downstream rivers. By improving the environmental footprint, we've also designed areas where we would improve the fish habitat and provide opportunities there for hatcheries.

Moose Cree First Nation is committed to working with the Ministry of the Environment to complete the existing EA in a manner that would incorporate the traditional knowledge of the surrounding First Nations in that area. While the Ministry of Energy's guidelines can serve this project, we feel that we can only enhance the actual environmental assessment by working together, and utilizing the knowledge that's within the First Nations territory.

Moose Cree First Nation is presently involved in different sectors in which we are determined to become self-reliant. We work in the forestry and eco-tourism sectors, and now want to enter the energy sector.

We also believe that, in working with this partnership with the involvement of Moose Cree First Nation, this government can develop a model in which it can work with other First Nations in Ontario to improve or develop hydroelectric generation stations.

I want to pass this message on to the standing committee from Moose Cree First Nation: Moose Cree First Nation, with their membership, strongly supports the redevelopment of the Mattagami River complex.

**Mr Dottori:** Why now? The partners so far have invested in the project development and the question is, why is now the right time to proceed?

The partnership has been in place for a while. Some work has been done. We've prepared some capital cost estimates and have done some design.

The environmental benefits are significant. It meets the need for new generation, which is currently the topic of much discussion. Our purpose is aligned with the new electricity vision that has been prepared by the Ontario government. It supports the coal exit strategy.

The economics are favourable at this time, and financing is something that is available at this time.

We thank you very much for the opportunity to present today. In summary, over the past 12 months, we've been working with and have met with various Ontario government officials in the Premier's office, in the Ministry of Energy, the Ministry of Northern Development and Mines, the Ministry of Natural Resources, the Ministry of the Environment and the ministry responsible for native affairs. We're here today to present our project to the committee and, specifically, to urge the government of Ontario to sit with the project team so that we can expedite its development. We thank you very much for your time.

**The Chair:** I just want to say I'm impressed with the involvement of the First Nation community. Because anybody who knows history remembers the Bourassa government and the problems they had with James Bay and the Cree nation. It's very refreshing to see the approach.

The government side, if they have a question—you have about three and a half minutes.

**Ms Wynne:** Thank you for being here. It seems this is the kind of thing that we're very interested in promoting. I guess my only question is, when you read the bill, is there anything you see that you're worried about that would make you feel like you're not going to be able to move forward with this project? I know the minister has already said he's interested in all water generation possible.

**Mr Dottori:** Not really. I think it's just specifically that the OPA is a good step in the right direction in that it provides for long-term contracts. Beyond that, we're just basically after a direction from the government to say that this is the way this project needs to be handled, because the assets belong to OPG. Therein is the issue for us: How do we participate in that development? We're prepared to bring the capital. We're prepared to bring the engineering, design and the construction risk. We're prepared to take those risks. Therefore, how does the Ontario government see this project moving forward?

**Ms Wynne:** My understanding is that the regulations will clarify some of that. I think the parliamentary assistant might want to comment on that.

**Mrs Cansfield:** Thank you, again, for coming and presenting a very exciting project. I reiterate what the Chair has indicated in terms of the First Nations being at the table. It's refreshing, and I thank you.

It's a little bit more complicated, isn't it, gentlemen, than just this? There are some outstanding issues that need to be resolved before we can move forward. But I think that, in your discussions you've had with the ministry and with others, there certainly is a willingness to come to the table and find some resolution to those challenges in order to move forward. I won't take the committee's time to make those issues public. I think they still need to be resolved. But I feel very sure that with goodwill at the table these things can, and will, happen.

**The Chair:** Mr Ramal, a quick question. I want to get Mr Arnott in for a quick question, too.

**Mr Ramal:** How much will it cost per kilowatt through this technology?

**Mr Dottori:** We don't know exactly yet, because we have to work out the details with the Ontario government and with OPG. But overall, hydro power is the cheapest power in the overall mix in Ontario. Therefore, it should be power that should help to reduce the overall average in Ontario.

**Mr Arnott:** I was encouraged to hear Mrs Cansfield's reassuring statement, because your project sounds like an excellent one that deserves and merits the support of the government, from what you've presented here today. I don't know if there have been any formal objections registered from anyone, but you indicated that you've got all the municipal councils onside and you've worked with all the partners to put together a very exciting project. I wish you good luck as, hopefully, the government moves forward as quickly as possible to give you the direction you need to move forward.

**Mr Dottori:** Thank you again for your time.

**The Chair:** Gentlemen, I want to thank you for being here today.

1340

PATRICIA MacKAY

**The Chair:** Patricia MacKay, please. Welcome, Ms MacKay.

**Ms Patricia MacKay:** My name is Pat MacKay, and I hope you won't ask me any technical questions, because mine is a pretty simplistic approach, with a particularly personal interest in the environment, and I felt I should come and say what I have to say.

**The Chair:** You have 15 minutes, and any part of the 15 minutes you don't take up, we'll have questions from the members of the committee. Please proceed.

**Ms MacKay:** Thank you for having these hearings so that citizens can come and say what they have to say. I am here as just exactly that: a concerned citizen, perhaps as much as anything as a grandmother who feels that we all have a responsibility for the future. I'd like to be able to look my grandchildren in the eye and say, "I tried. I did a little bit of something." It wasn't hugely impressive, but I'd like to at least feel that I didn't just stand by and say, "What can you do?" which I think is the worst phrase of all.

I really believe that Bill 100 is going to affect Ontario's electricity supply for at least the next 10 years, and probably for generations, so I think we should all be paying strong attention to what's in it.

I'm here because I'm a strong supporter of renewable sources of energy and, in particular, wind power. It seems to me that there is a significant potential here to encourage farmers, co-ops, First Nations and community groups to become involved in developing wind power. We know that it's non-polluting, it's safe, it's clean and it can generate power continuously. There's no risk of catastrophic accident or sabotage. With government encouragement and support, community groups could participate in a meaningful way to augment and possibly replace some of the existing polluting sources of power.

My personal interest is because I have 500 acres of land that is northeast of Bowmanville and I would like to be able to put wind turbines on that property. I would like to be able to think that it is going to be used in a productive way, a non-polluting way, and that it's just a small gesture that my family could contribute toward producing power and not cause problems. I believe that there are many other farmers and landowners who would like to benefit from providing their land for an environmentally sound way of generating electricity.

At present, there are many stumbling blocks, most notably the difficulty of getting a purchased power agreement with a local utility that would pay enough to make the necessary investment profitable. It's my understanding that other provinces in Canada and several European countries—Spain and Germany, to mention just two—have made major strides in developing successful wind industries.

We now have an opportunity for Ontario to give leadership, to show initiative and to build a cleaner, more sustainable electricity system. I believe that Bill 100 should strongly endorse, encourage and facilitate the development of wind power and other forms of renewable energy. It's important that this support be firmly stated in the legislation and not be left to the discretion of the minister or ministry personnel. I think there's an enormous opportunity here for Ontario to really show its capacity to lead, to demonstrate to other provinces and to other countries what can be done, and I really hope that this will become a part of Bill 100. Thank you.

**The Chair:** Thank you very much. In this rotation, Mr Arnott, you're up first.

**Mr Arnott:** I wanted to thank you very much as well for your presentation today. I don't have any questions. You were very clear and forthright with offering your suggestions and offering your property as a possible venue for a significant wind generation facility. There might be an investor out there who's following this committee's deliberations and hopefully will be able to connect with you at a later date, but I think there is merit in the government continuing to explore this issue with people who are interested, like you. Certainly your participation in the process is most sincerely appreciated.

**Ms MacKay:** Thank you.

**The Chair:** Mr Kormos isn't here. I'll go to the government side. Mr Craitor, please.

**Mr Kim Craitor (Niagara Falls):** Thank you, Patricia. It's quite a pleasure to have you here. We've had three days of hearings, and yours is one of the ones that I certainly won't forget. You did use the right words: that you're here, you've tried, you're participating. I can tell you that all the members, no matter what ridings we come from, are all here for the same reason as you: We're all trying to make a difference.

Wind power: That's something that I do support. In Niagara Falls, the riding I come from, we have a number of people who have been into my office and had the same suggestion as yourself. Owners of golf courses have come in and said they're prepared to make their land available. We have a lot of farmers down in our area; they're quite interested in making their land available, if the opportunities exist. I tend to agree with you: There are some difficulties that people like you face when you want to make your lands available for wind power, so that's something we're going to have to take a look at.

Just to share with you: In Niagara Falls we have a new community centre coming on board. One of the things we're working at is to try to convince the city to put up a wind power station right on site, not only to generate power for the community centre but also from an educational point of view, to show the kids who are coming on board the importance and the benefits of wind power.

So your time here is well spent. We all really appreciate it, and I do as well. Thank you very much for appearing before the committee.

**The Chair:** Ms Wynne and then the parliamentary assistant.

**Ms Wynne:** I just had a question, Pat. Can you take us through the process? You said there's a barrier, the purchase agreement. Can you just take us through what you've been told so far?

**Ms MacKay:** It's just basically that it's very complex at this point in terms of trying to determine how you get the provincial approval, how you get the—

**Ms Wynne:** Who have you dealt with? What's the procedure that you've gone through up to this point? I'm just trying to get a handle on where the problems are.

**Ms MacKay:** At this stage, I'm really investigating it and not knowledgeable, really, in terms of all the possibilities. It's my understanding that I could be part of a co-op. I could lease the land to somebody else. I could try and develop it myself, but the capital outlay to put turbines on your property yourself is—

**Ms Wynne:** Huge.

**Ms MacKay:** —huge, just huge. So unless there was some way of really assuring that there was going to be some kind of subsidy for farmers and individuals who were prepared to do this, or some kind of assurance that there would be a set amount payable over a period of years so that you could amortize the cost, it would be a risky thing to go into.

**Ms Wynne:** So you need some of those pathways clarified and what the assurances would be.

**Ms MacKay:** Yes, and a sense that the government wants people to do this and is going to facilitate, assist and promote the idea, rather than make it difficult.

**Ms Wynne:** OK. That's very helpful. Thank you and good luck. We'll try to do our bit.

**The Chair:** The parliamentary assistant.

**Mrs Cansfield:** I appreciate your coming as well.

**Ms MacKay:** It does take a little nerve, I've got to tell you.

**Mrs Cansfield:** It's fantastic that you are here. I want to just restate the minister's position that he is prepared to do absolutely everything and anything to facilitate the small or medium-sized wind turbine initiative to go forward. We recognize where the barriers are. Some of them will be identified in regulation and others will be identified in an omnibus bill. So you need to know that there is a strong commitment toward alternative energies, clean energy, from this ministry, and that the minister himself has said that it will be an integral part of the mixed supply of this province.

I know where your barriers lie. I think there are huge challenges for you, but there are lots of people prepared to work with you to overcome those barriers, starting with the minister himself.

**Ms MacKay:** I'm known for persevering, so I won't quit easily.

**Mrs Cansfield:** I'd be delighted, actually, to give you my card. If you'd like, I could help you follow through with some folks whom you might be able to move forward to and get some additional information.

**Ms MacKay:** Good. Thank you.

**Ms Wynne:** I was just going to say that if you take Mrs Cansfield's card—if we've said the barriers have been removed and you're still facing them, please, you can get in touch with any of us, but you'll have Mrs Cansfield's card. It's good for us to know what's actually happening on the ground.

**The Chair:** You may also want to contact General Electric in Peterborough, because I know they're looking at a business plan to perhaps build wind turbines at their Peterborough location. So you may want to contact them too.

**Ms MacKay:** Thank you.

#### PUBLIC PROTECTION ACTION COMMITTEE

**The Chair:** Next we have the Public Protection Action Committee: Mr Hood and Mr Poulos, please. You are, sir?

**Mr Ian Hood:** My name is Ian Hood. I'm with the Public Protection Action Committee. I'm also involved with Global Warming Prevention Technologies. I'd like to thank the committee for allowing me to make this presentation.

I'll come straight to the point, gentlemen. There's no way possible we can do away with coal-fired generation, based upon the realities after 9/11 and a host of other dilemmas too numerous to mention. You have a disk in

front of you that will give you a complete understanding of what's going on in the nuclear industry as far as the deficiencies are concerned. These are government documents. I can assure you, once you review them, the implications are staggering. It gives you the reasons that the cost factors, the cost overruns and so on are so high. It gets down to generic design deficiencies called fuel string relocation. It also explains what happened as far as the tritium leaks and a host of other dilemmas.

**1350**

The problems are very severe. Coal-fired generation must be maintained in an environmentally friendly, cost-effective scenario.

We have worked for two and a half years, looking at every single alternative. We have designed the rain tunnel, which you can see there, as far as the presentation. OPG was pursuing it, but the venture capital part of OPG no longer exists. They want—Blair Seckington, and I have met with Jake Epp—a bench test.

The bottom line simply is that there is an answer. It's very basic. We're mimicking Mother Nature, more or less, but there's a lot more to it than that.

The rain tunnel is absolutely the most viable alternative at the present moment. We will not support coal-fired generation in the state it's now in. But it can be cleaned up, it can be made environmentally friendly and the cost savings are staggering. Most of all, it is the most secure energy source we have.

We can provide you with a huge amount of information on why it must be maintained at all costs. The cost-effective scenario as based upon our presentation is very real. The amount of time and effort that has gone into developing this is staggering. We've looked at everything, and I mean everything. It got down to the rain tunnel. Some of the best minds in the business have worked on this.

It will work. It's very basic. If you go outside after a rainstorm, you can see exactly what the atmosphere looks like. It's very clean. It rinses; it takes care of the problem. Nothing goes into the lake. Everything is recycled, in the sense of the technologies we have, in order to purify the water and recirculate it.

Venture capital at OPG doesn't exist. So we're back before this committee clearly stating that we have an alternative. Let's explore it. If they want a bench test, let's find the necessary funding in order to do that. We've spent a great deal of money and time.

I can assure you that once you review those disks you have in front of you, you'll understand clearly how important it is to maintain coal-fired generation. In CANDU there is a generic design deficiency, called fuel string relocation, that has cost billions of dollars to try to correct, and they can't correct it. Also, it will discuss the most serious scenarios around the tritium leaks and why they happened—again, very serious problems. We cannot rely upon an energy source that has a generic design deficiency in it. That doesn't mean we shouldn't try to do something with the CANDU reactors, but one thing is for sure: We have to maintain coal-fired generation. Other

than that, we're looking at disaster, and I mean serious problems.

I can assure you of one thing: Our effort and time is devoted to the province of Ontario and its citizens in Canada alike. We care. Some people around this table know me. I've been down here off and on for 30 years. I can assure you of one thing that's extremely important: Our energy source, if you put heating and hydro under the same scenario as far as natural gas is concerned—I'm going to tell you something here and you can check this out.

In California on Thursday there were two serious eruptions on a major, major natural gas pipeline, so serious that it's now under investigation under very suspicious circumstances—two at the same time. Can you imagine what would happen here in Ontario in the middle of winter, when you have tens of thousands of homes depending upon heating and hydro from the same source, a 2,000-mile pipeline that can't be protected? Imagine the devastation and problems that would be created.

Coal-fired generation is the most secure energy source we have today. After 9/11, we have to be very, very careful, based upon those scenarios. I'll provide you with intelligence reports; you name it, you can have it. Colin Kenny, Senate committee of security and national defence, his positioning on all of this—we need coal-fired generation, and we've got to make it environmentally friendly. We can do it, but it's got to be cost-effective and it's got to be, without question, pursued, pursued, pursued.

**The Chair:** Thank you very much, Mr Hood. We have about seven minutes for questions. In this round, Mr Kormos isn't here, and we'll go to the government side. Are there any questions on the government side? The parliamentary assistant, Mrs Cansfield, please.

**Mrs Cansfield:** Mr Hood, I want to say thank you as well, because you constantly give me information that I do get an opportunity to read. I really do appreciate it. It's a chance to learn.

I recently heard about another technology involving the use of the CO<sub>2</sub> out of coal plants to go into it, and I'm not sure, sir, if it's oil to help in the oil refinery because it makes the process better. I think a couple of the major companies are working on that in Alberta. Have you heard anything about this?

**Mr Hood:** Yes, I have. It's about \$17 to \$20 a kilowatt. It's—

**Mrs Cansfield:** Not viable.

**Mr Hood:** No, it's not viable. Not only that, but there are some other downsides to it. But there's no way the province can absorb that kind of a hit as far as energy costs.

We have now tens of thousands of jobs that could be lost if the energy costs go up to what is anticipated; at 53%, there's no way. We have to keep it within a reasonable realm. We must maintain those coal-fired generation plants. This would be roughly around \$6, and that's pretty—I think it's even lower than that, but that is the

extreme, because it's basic. All we're doing is utilizing water and some larger controls. There are some other scenarios as well. But the amount of time and effort that went into finding this—we've looked at everything, and I mean everything, from A to Z.

**Mrs Cansfield:** Well, I know it's been quoted—I think it's the adviser to Mr Blair who feels this is a worse threat to our livelihood than terrorism is, the CO<sub>2</sub> emissions issue and global warming—

**Mr Hood:** Exactly.

**Mrs Cansfield:** —and that we need to find some solutions to deal with it. So I thank you for bringing this forward. I really appreciate it.

**Mr Hood:** By the way, we're very strong environmentalists. We care. We don't like the way things are at the present time.

**The Chair:** Mr Ramal, please.

**Mr Ramal:** Thank you for your presentation. Definitely it was an educational session for me. We listen to a lot of people talk about the cogeneration, anti-environment, and all the direction from all the parties, the government levels, against it and working on phasing it out in the future and replacing it by different sources. It's a surprise for me when you mention it's most effective and cost-effective and can be environmentally friendly. Can you explain to me how it can be, with maintaining the cost-effect?

**Mr Hood:** What's that, sir? I'm sorry. Maintaining the cost-effect?

**Mr Ramal:** Yes.

**Mr Hood:** Well, basically what we do is, we don't have to tear these plants down. That's number one. Number two, the amount of money to produce a rain tunnel is very minimal. Number three, the maintaining of that, again, is about—I think \$6 a megawatt hour is rather exorbitant, but our consultants say, "Go to the extreme as far as costs." I think it's even lower than that.

So that means, number one, you have a secure energy source. Number two, the cost factors are minimal. Number three, it's environmentally friendly. But most of all, it's the most secure energy source we have. Today, with the serious problems we face—as I said, I'll give you all kinds of reports to substantiate this—we have to maintain coal-fired generation. There's no way we can protect a 2,000-mile pipeline and put cogeneration on it—

**Mr Ramal:** What about nuclear facilities?

**Mr Hood:** Well, the nuclear facilities, as you know—I won't get into all of it, but there are very serious questions about the latest arrests in regard to the Immigration Act, where they found in this gentleman's apartment very specific drawings in regard to Pickering. He was taking training at the island airport, OK?

In order to even deal with a coal-fired plant, you would need explosives beyond—and there's no fallout. It would be almost impossible. Not only that, it would be only one plant, and we've got five out there. We should be looking at revitalizing the rest of them. But it can be made environmentally friendly, and we wouldn't be here

preaching it in the sense of trying to revitalize it unless it could be, because I do not support it in the manner that it now is. There won't even be stacks. It can work; it will work.

**1400**

Again, Jake out there, I've met with him, and I've also met with the director of new energy sources, and they want to do a bench test. But their venture capital part of OPG no longer exists; it's gone. There's no question that the security issues are paramount and cost factors are important, and we can't lose the jobs. Have you any idea how many people right now are looking to go south of the border because of the potential of what these cost factors represent, not also taking into consideration the border dilemmas? You put the two together and we can see serious problems here. We have to deal with this thing and we have to maintain coal-fired generation. We can do it in an environmentally friendly way, and I can assure you that's 100%.

**The Chair:** Mr Craitor, quickly. I'd like to get Mr Arnott in for a question.

**Mr Craitor:** I have just one follow-up question. A bench test—what does it cost for that?

**Mr Hood:** A bench test? I would say we could probably get by with about, depending upon the extent of the circumstances and so on, maybe \$2 million or \$3 million. But it has to be done 100% and it has to be 100% in the sense of the results. But all of the testing—

**Mr Craitor:** You're asking the government to pay for that.

**Mr Hood:** There are other people out there, but if the government wants to participate, we'd like nothing better. But we've been told by OPG that that's what they want. Blair Seckington has told us clearly, and they've reviewed all of this, "Ian, we want you to do a bench test, but our venture capital no longer exists." But it's very quick, and as far as building this thing and putting it into effect, it can be done very quickly.

**The Chair:** Mr Arnott?

**Mr Arnott:** But you have abundant faith in your technology that you've developed—

**Mr Hood:** How are you, my old friend?

**Mr Arnott:** Good to see you. I want to give you all the encouragement that I can, as you continue to pursue your idea. I hope that venture capital does become available so that you can test it and demonstrate what it's capable of doing. If your concept works, it would be a tremendous benefit to not only Ontario residents but probably those throughout North America and indeed the rest of the world.

**Mr Hood:** It has taken a long time but, you know, it gets down to old Mother Nature. When you go outside after a rainstorm it's clean. Basically, that's what we came down to. After everything we looked at and looked at, some of the best minds over at the universities got together and said, "This will work." And it does work every day that it rains, after you go out there after a good rainstorm and you can breathe the air. But we've got to make sure that nothing gets into the lake, so we have all

of these recycling scenarios of the water and we take all of the sulphur out and we put it right back into industry. But it has taken a long time to come up with it. It wasn't easy finding this solution, but it works.

**The Chair:** Gentlemen, I want to thank you for your very fine presentation. It's great that you were with us this afternoon.

**Mr Hood:** Thank you for your time. And, by the way, when you do have a chance, look at those disks because what you have there is the AECL investigations into the nuclear industry. I can assure you, those documents are no longer in existence, because they were destroyed. But you have very serious information there. Anything else you need, I can assure you we can provide. We have hundreds and hundreds of files on the problems associated with the nuclear industry, but it needs to be pursued and helped.

#### CANADIAN FEDERATION OF INDEPENDENT BUSINESS

**The Chair:** I'd now like to call on the Canadian Federation of Independent Business: Judith Andrew, the vice-president for Ontario, and Satinder Chera, the director of provincial affairs. Welcome to our committee, and good afternoon.

**Ms Judith Andrew:** Good afternoon, Mr Chair and members of the committee. I'm Judith Andrew, vice-president, Ontario, with the CFIB. Satinder Chera is to my right, and another colleague of ours, our senior policy analyst on the electricity file, Tom Charette, joins us today as well. My colleagues and I would like to thank you on behalf of our 42,000 small and medium-sized business members across Ontario for the opportunity to make this presentation to the standing committee with respect to Bill 100.

If I could briefly address your attention to the kits that you've just been handed and acquaint you with the content of those kits: You have some documentation around today's statement on the right-hand side. The next issue is an information piece we've prepared for our members that we are delivering to them across Ontario so they can attempt to understand what has transpired in the electricity industry and what some of the key issues are that we're facing. You have a letter that we prepared for Minister Duncan on April 1, when the pricing change came into effect. And some prior briefs are there as well. We've been working on the electricity issue for some years now and we continue to approach it with all good spirit so that we can eventually get to the place we want to be.

I want to say at the outset that CFIB agrees in principle with the direction laid down by the government in Bill 100. We support the government's efforts to depoliticize this key issue. We appreciate that the government is following through on their commitment to provide small business with predictable and stable electricity prices. However, we do withhold our full endorsement, pending the development and outcome of regulations that will

govern low-volume consumers. Naturally, we are very interested in having further discussions with the government on that.

I should also mention that we have survey questions in the field right now to our membership and we're getting thousands of responses back dealing with small business consumption and also their interest and activities in the conservation arena. So that information could certainly be made available to the committee should you wish it.

The primary interests of Ontario's small and medium-sized business sector, which actually accounts for about half of the province's GDP and employment, are in fact avoiding periods of brownouts and blackouts. Last summer's blackout, of course, cost our sector somewhere in the neighbourhood of \$1 billion to \$2 billion. Our members are also interested in the significant and, we would say, avoidable increases in the price of electricity. We submit that these are the interests of all other electricity consumers in the province as well.

We feel that Ontario's ability to meet these objectives will be strongly tested. The starkest element of the reality of the situation we find ourselves in is that Ontario must replace 80% of our current generating capacity over the next 15 years, at a staggering cost—we've been given estimates of between \$25 billion and \$40 billion—and at the same time accommodate net demand increases. As the Minister of Energy said in introducing Bill 100, "Our ability to keep the lights on has been compromised."

As far as the objectives of Bill 100 are concerned, as set out in section 1 of the legislation, we endorse those objectives, with the proviso that they be accomplished with all due caution and in a manner that is transparent, accountable and in fact minimizes the prospect of further difficulties with the electricity sector.

In announcing Bill 100, the Minister of Energy referred to a decade of mismanagement in Ontario's electricity sector. To take one example, the news release that accompanied the report on the Pickering A nuclear facility actually said:

"At that time, (1999) OPG estimated that the total project would cost \$1.1 billion, and that all four units" at Pickering "would be operational by December 2002." By "September 2003, only a single unit, unit 4, was returned to service, and at a cost of \$1.25 billion—triple the original estimate for that unit and two years behind schedule. The three remaining units are still out of service." So the last decade certainly had its problems.

#### 1410

We would encourage the minister, the government, the members of the committee and indeed all members of the Ontario Legislature to actually reflect on the meaning and implication of the debt restructuring charge that now appears on electricity bills in this province. The DRC accounts for a full 0.7 cents per kilowatt hour consumed in the province. It is a monthly or semi-monthly reminder to every consumer in the province of the mismanagement that has plagued the province's electricity sector for several decades and under governments of every political stripe.

The thrust of our presentation today is to urge this committee to recommend amendments to Bill 100 that provide additional steps, beyond those already contained in the bill, to minimize the possibility of further mismanagement going forward.

**Mr Satinder Chera:** The first of our two major recommendations calls for the creation of an office of the provincial electricity auditor. This office would be responsible to the Legislative Assembly of Ontario in a manner that is consistent with that of the Provincial Auditor and the Environmental Commissioner of Ontario.

The office of the electricity auditor would be responsible for two oversights. First, it would periodically audit the operations of, and make recommendations with respect to, improvements on the efficiency of the following: the Ontario Energy Board, the IESO, the Ontario Power Authority and local distribution companies. These entities quite properly have been placed beyond the day-to-day management of the government of the day, and we applaud these efforts. However, every organization needs careful oversight. Accordingly, we believe a way to accomplish this objective is through an office of a provincial electricity auditor.

Secondly, the office of the auditor would certify the annual net benefit and/or net cost of government initiatives related directly to the supply of electricity and/or the reduction in demand for electricity. These would include the following: the efforts and programs of the chief conservation officer; the annual net benefit of the \$250 million being spent by local distribution companies to promote demand-side initiatives; the annual net cost of the smart meter initiative; the annual net cost of replacing coal-fired generating stations; the annual net cost of new electricity generated by alternative energy resources; and finally, the annual net cost of new electricity generated by renewable energy resources. It will be important for electricity consumers and for the government to know whether these initiatives are successful, and to know it from an independent body reporting to the Legislature.

Our second major recommendation concerns how to handle the costs of rebuilding Ontario's electricity sector. We are concerned that many of the costs associated with this bill, together with those of other initiatives that have been announced by the government, will by themselves have a significant impact on the cost and price of electricity. We would submit that if all these costs were put on to the rate base, there would not be the level of accountability, transparency and degree of control that is necessary as we work to rebuild this critical infrastructure and to restore public confidence in the system.

Accordingly, we recommend that the following costs remain outside the electricity rate base and be carried in the public accounts of the province of Ontario. These would include:

(1) All costs associated with the efforts and programs of the chief energy conservation officer that exceed the net benefit that results from those efforts and programs;

(2) All costs that exceed the net benefits of the \$250 million being spent on demand-side by the local distribution companies;

(3) All costs associated with the smart meter initiative that exceed the net benefit associated with them;

(4) The net costs of replacement electricity made necessary by eliminating coal-fired generation. If I can say a word or two on this point, there has been much debate, and there continues to be, surrounding whether these coal-fired generators should be shut down. Our message to the government and to this committee would be to proceed with caution. Last year's blackout, for example, cost the SME sector over \$2 billion in lost business. It goes without saying that replacement generation must be in place before any of these units are taken off-line.

To continue:

(5) The net costs of energy from alternative energy sources should and

(6) The net costs of energy generated by renewable energy sources.

All of these costs we would hope and expect to be certified by the office of the provincial electricity auditor.

What is the basis for this recommendation? There are three:

First, there is the need for transparency. For example, electricity consumers need to know whether or not each of the demand-side initiatives, particularly ones as expensive as the smart meter initiative, is actually having the desired impact.

Second, there is the need for accountability. If a particular demand-side initiative delivers a net reduction in the cost of electricity, there should be no impact to the provincial treasury. However, if a particular demand-side initiative causes a net increase in the cost of electricity, this cost should not be hidden in an electricity bill. The government is responsible for such initiatives and needs to be accountable for them. If they turn out not to have a positive impact, the government is the only party that can take the appropriate action.

Finally, the government needs this level of accountability, we would submit, as an impetus for sound decision-making. With competing interests for scarce public dollars, governments must be held to account for how they spend those dollars. Shifting costs on to the electricity rate base, where the real cost of government decisions can be hidden from public scrutiny, would further diminish the public's faith in Ontario's electricity sector.

As this committee continues its deliberations on Bill 100, we would implore you to give serious consideration to the proposals we have made today. If public confidence in the province's electricity system is to be restored, then no stone must be left unturned.

Thank you for giving us this opportunity to appear before you today. We would be pleased to take any questions you may have.

**The Chair:** Thank you very much for your presentation. We have about three minutes. The government side is up first in this rotation.

**Mrs Cansfield:** Thank you very much for your presentation and also, in the past, for coming and being a part of helping us develop this bill and the regulations.

I'm curious about the issue of the Provincial Auditor. Have you been to any of the Ontario Energy Board hearings at all?

**Ms Andrew:** Yes, we are certainly not johnny-come-latelies to this issue. We appeared the first time in the matter of 1994 rates. We found, as a fairly experienced business association such as ours, that the Ontario Energy Board was a very difficult place for anyone to appear before. I think it's impossible for the average Ontarian to appear there and to have any kind of an impact on rates.

**Mrs Cansfield:** Have you been there recently, Judith?

**Ms Andrew:** We've met with Mr Wetston. We don't appear as a matter of course before the energy board; it seems to have its ongoing process with a bevy of lawyers and consultants who make that their life's work. They are there on a constant basis on the hearings. The hearings are extraordinarily long and detailed. I guess the economics on regulation is always a challenge; it's not clear that the consumer is the winner in this, which is why we're looking for an additional level of scrutiny.

**Mrs Cansfield:** The reason I asked is because they're looking, for example, at the smart meters, and I thought that there's an opportunity for the transparency and accountability you were asking for. It's an opportunity for you, as well, to acknowledge the needs of your community.

The other question I have is around the issue of the ratepayer or the taxpayer in terms of smart meters. I'm curious as to why you feel that the taxpayer, as opposed to the ratepayer—and that makes it more accountable.

**Ms Andrew:** So much has happened in the electricity sector where different initiatives have been tried. There have been lots of mistakes made. There has been considerable largesse in terms of the spending in some quarters. None of that seems to come home to the ratepayer. It doesn't seem to get the same level of scrutiny as would, say, a provincial budget.

It's probably true that our members, as well as many Ontarians, are tired of going from crisis to crisis in the electricity sector. We know we're up against a major period when there are going to be huge monies invested, and it would seem appropriate to have as much scrutiny of that as possible and put the onus on the government to actually cost whether any of these initiatives are going to pay for themselves or cost more money. Electricity ratepayers generally don't understand that the DRC is the result of many years of mismanagement. They don't know the details behind that, but they would wish that somebody had done something before that debt amounted to the way it was.

1420

**Mrs Cansfield:** The last question is on the office of the provincial electricity auditor. Who do you think should pay for this office?

**Ms Andrew:** That's an interesting question. If the government is serious about taking up our suggestion on this one, we can certainly canvass our members on that. In the past, when we asked our members who should pay for the residual stranded debt, whether it should be

ratepayers or taxpayers, which in some respects is almost the same bunch of people, our members said that ratepayers should.

**The Chair:** Ms Wynne, a quick question, because I also want to work in Mr Arnott.

**Ms Wynne:** My question was about the office of the provincial electricity auditor. I was wondering why a new office, and if the Provincial Auditor could not do the same job.

**Ms Andrew:** Because all the major parties represented in the Legislature have had a crack at trying to fix our electricity issues, and because it is such an enormously important issue for small business, for the economy and for Ontario citizens, it ought to be a truly non-partisan issue, which means that if you have an officer of the Legislature who is going to report to all the elected members as opposed to the government of the day, then you've set it up in a truly non-partisan way, where all MPPs and all of us in Ontario are working to make the system work. It's just that important.

**Mr Arnott:** Thank you very much, Ms Andrew and your colleagues, for your presentation. As always, your ideas were helpful and constructive. I want to particularly express my own personal view that the idea of establishing an office of the provincial electricity auditor is superb. It's something we needed 30 years ago and we've needed every year since that time.

I would suggest that you're absolutely right that it should be an officer of the Legislature. I would suggest that the funding for such an office should come from the Legislative Assembly's budget so that that person is completely neutral and independent of the government of the day and can come out with an annual or twice-a-year report identifying areas where the electricity business across the province of Ontario could be improved, much like the Environmental Commissioner does. It would benefit the public interest in Ontario considerably if that were to be embraced by this government, and if not, hopefully the next one in three years' time.

**The Chair:** Thank you very much for a very thoughtful presentation today.

**Ms Andrew:** Thank you for the opportunity.

BILL WIGHTMAN  
SCOTT BROWN

**The Chair:** I'd now like to call on Bill Wightman, please.

**Mr Bill Wightman:** Mr Chairman and members, I appreciate the opportunity to appear before you. We have intentionally not burdened you with papers except for a list of names of people with whom we've consulted and worked informally. Our hope is that we can offer some food for thought that may assist you in your work.

I'll say a word about the group of people. You'll notice that they have very different backgrounds and differing views on many aspects of the problems we face. Mr Brown and I have profoundly different political views, we support different political parties, but we are of

one mind in terms of the importance of the work of this committee. I think it rises well above our individual political considerations. We would go on to add that we hope that in every Legislature in this country, and at the federal level, our elected representatives will adopt a similar approach to the consideration of Ontario's energy problems, and Canada's; indeed, it's a worldwide issue. Only that way can we hope that courses of action that are decided upon will be based on reason and not on misconceptions, that they will be based on fact and not emotion.

I recently read a news item concerning the situation in Europe and predicting dire developments within the next decade as a consequence of global warning.

James Lovelock, who is revered among environmentalists as the founder of the Gaia theory, likens the world situation to that of an ocean liner approaching the edge of Niagara Falls. He says the engineer is trying to turn the thing around and get up enough steam to go upstream and avoid going over the falls, but he is failing. Some scientists who are also heavy hitters would disagree with Mr Lovelock, particularly as regards the imminence of disaster. Without commenting on that dispute, because neither Scott nor I would represent ourselves as being experts—and we certainly don't represent ourselves as being able to speak for all the people on that list. The people on that list, as far as I know, would not describe themselves as experts. But Scott and I at least are optimists. We think there is much that can be done. Being people of free will, as are all of you, we choose to be optimists. I do so simply because it's a happier way of living than being a pessimist.

There is one dramatic suggestion Lovelock makes that we'd like to come back to a little bit later and with which we agree. But first I'd like to ask my colleague Scott Brown to speak with you a bit about conservation, because we think it's an extremely important part of the bill.

**Mr Scott Brown:** Mr Wightman has mentioned that our interest in the generation of electricity began with research into large-scale wind generation. We were concerned, in the first instance, by the issues of rezoning to control the inclusion of large industrial wind farms in proximity to residential areas. Our research then led into alternative systems of generation and is that of laymen assessing the current state of technology in this area. It has led us to the conclusion that at this time there is no viable, reliable, cost-effective solution to the shortfall in production to be found in the alternative technologies. There are many possibilities that require further research and development. Development of these alternative sources should be left to private enterprise to be perfected and proven for the future. They must not be seen to play a part in our attempt to match production to demand today.

We also take a warning from other jurisdictions that have embraced alternative sources and that have discovered the cost is even greater than the increased cost of electricity. One reads in the Darmstadt Manifesto a

dire warning from over 100 eminent scholars that Germany has, with its installation of hundreds of large wind turbines, paid a very high social and aesthetic cost. They speak of the despoiling of vast areas of scenic countryside and the social disruption of many communities by the installation of ever-taller towers with ever-greater rotor sizes. I have a copy of the Darmstadt Manifesto, if the committee has not already seen one. We found this to be a very compelling warning.

But as an optimist, I should relate to you a very low-tech success story of how Robert Cluett, one of our study group members, achieved a 10% reduction each month of this year over the previous year in household consumption of electricity. This is a household that, by Robert's own admission, was and still is unconcerned about the volume or cost of use. The 10% saving was made by replacing 10 100-watt bulbs with compact fluorescents and by turning off two computers every evening after use.

Another effort by both Mr Wightman and me used the good offices of Hearthmakers Energy Cooperative for an EnerGuide for Houses assessment for our homes. Mr Wightman's home had just been extensively renovated and my home was only five years old, but we both thought that an outside opinion might help us increase comfort and reduce costs. The results for both homes were extensive lists of simple, inexpensive remedial actions to help cut down energy use while improving lifestyle. Both of us have implemented these recommendations at limited cost, and we will soon be re-measured at both houses to see how effective these modifications have been.

#### 1430

Please note the involvement of each of the players in this drama. The federal government established the program and provided very limited funding. An NGO carried out local administration with low overhead. A private enterprise expert carried out the study and produced the report, which went directly to the homeowners, and then the homeowners took responsibility for remedial action—all of this at the homeowners' own expense. Only on a successful retest is a small grant given by the government, which in most cases amounts to about the cost of the original survey.

This model of change production really works. This leads me to my recommendations. To buy time for increased generating capacity to be brought on-line, whatever its source, conservation is the only short-term solution. This conservation needs to be widespread, immediate and it must be an effort embraced by a large percentage of users, both residential and business, to achieve the maximum effect. I submit, however, that the provincial government's role should be limited, as the federal government role was in the example I mentioned earlier—the role of facilitator rather than the role of implementer.

Mr Wightman and I about a month ago met with our mayor, Mayor Finnegan of Prince Edward county. Our suggestion was a county-wide conservation program

similar to those tried by a few other municipalities, largely west of Toronto. We suggested a goal of a 10% reduction across our beautiful county. It is our belief that to get an individual effort by a large group of people, the body making the request should be as close to the people as possible and, if possible, be non-governmental. We suggested that county council's role be that of an enthusiastic supporter and that the actual administration of the effort be entrusted to an existing NGO such as Hearthmakers Energy Cooperative. Our mayor was intrigued by the idea—quite excited, in fact—and with further urging will no doubt take the initiative to chair just the organizing meetings.

The provincial role in the kind of model that we suggested to you today would be that of a facilitator for these local initiatives. For instance, encourage municipalities to become involved in the way that best suits their constituents; provide information to municipalities on which to base their programs; serve as a clearinghouse for the success stories of each group's efforts; provide modest funds to the local organizations to help volunteers carry out the programs that will produce results; provide PST holidays for items such as compact fluorescent bulbs, set-back thermostats and smart meters for a limited time to encourage prompt action by local groups; and implement an off-peak rate for domestic users.

We suggest to Ms Cansfield that this kind of local initiative, with provincial assistance and encouragement, would bring about the kind of community co-operation that we saw in the summer of 2003 in Toronto. Those extraordinary times saw measures of up to 50% reduction by some users but required lifestyle changes. A more realistic goal, which could be sustained, might be 10%. If this could be achieved, the consumers would be immediately rewarded with lower hydro bills, the local organizing groups would have a valid *raison d'être* from which it could expand into other endeavours, the municipality would have a reason to celebrate its contribution, and the province would buy the time required to increase generating capacity.

I thank the committee for its patience in listening to an appeal that you've heard many times, but perhaps this Prince Edward perspective offers some new ideas.

**The Chair:** Thank you very much. We have about four minutes left. Mr Arnott isn't here. On rotation, I would go to Mr Kormos. Would you have a question, sir?

**Mr Kormos:** No, thank you, Chair.

**The Chair:** The government side.

**Mrs Cansfield:** I'm looking forward to rereading your copy so that I can pull up some of those suggestions and see how we can be of some support and service in those local initiatives. I think the suggestions you put forward are excellent in terms of the conservation types of initiatives that we can do locally.

**Mr Wightman:** Mr Chairman, though we hadn't burdened you with paper beforehand, we do have some material we'd like to file with you so that it would be available to the members of the committee. We'll do that afterwards, but—

**The Chair:** Do you have that with you now, sir? We'll ask the clerk to help us out here.

**Mr Wightman:** Yes. Including the bullet suggestions that we made to our mayor. If we can be of further assistance, we'd be happy to.

**Mrs Cansfield:** I appreciate that.

**Ms Wynne:** I just had a very quick question. In your look at Bill 100, are you encouraged by the presence of the conservation bureau? The kinds of initiatives you're talking about are the kinds of things that it will exist to promote.

**Mr Wightman:** We're here in no small part to say that we would like to see great emphasis put on it. We're aware that the legislative assistant to the minister has been given specific responsibility. We'd like to help in any way we can. We can't do much beyond these suggestions, but we'll do anything we can.

We've said the same thing to our mayor. We suggested that he turn to an agency or entity such as Hearthmakers or somebody else to coordinate and to give him a lead in it. We'll pitch in, as have with the Trash Bash, picking up stuff on the streets. But we'd just like to see you get the ball rolling.

Any program—and as legislators, you would know—is not going to succeed unless it has pretty widespread public support. It doesn't have to be unanimous, but it has to be pretty considerable, whether it's a law or program.

May I just say something about the differences of view that arise in this group of people and about Dr Lovelock? As I said, he is regarded as a guru in the UK, in no small part because he was responsible for one of the earliest wind farms in the UK, in Devon, which is where his home is. He now refers to that as "my biggest single mistake." He is a strong, strong advocate of nuclear. We find that there's considerable disagreement as to how much is going to be required in the future.

Among our group, the first name on the list, as a matter of fact, is that of Paul Adamthwaite. It happens that Paul did his doctoral studies under the same faculty leader as did Dr Lovelock, and at the same time. They know one another, and it's not surprising that Adamthwaite supports the Lovelock notion and what flows from the Gaia theory.

On the other hand, further down the list you will see the name Kent Hawkins. Hawkins does not agree with nuclear. Among physicists, I suppose he would be regarded as taking the soft approach; that is, decentralize the production of power and put a great emphasis on conservation. He would argue, as do many, that that should be our first step: buy time with as much conservation as we can possibly bring about and, while doing that, the role of senior levels of government would be to develop guidelines for installation and land use and alternative forms of energy.

We've been very encouraged by reading what's going on, notwithstanding Kyoto, in terms of renewable energy development—all manner of things: fuel cell technology; solid oxide in particular seems to be good; we heard

something today about coal that I hadn't heard before. But there is so much. The world has never run out of fuels, and it won't matter if we run out of oil; there will be substitutes. But we need to buy the time and we need to get behind the kind of responsibilities that you've been given.

**The Chair:** I have a question. Was it not a couple of years ago in Prince Edward county that there was an application to rezone some property for a wind farm?

**Mr Wightman:** Indeed.

**The Chair:** Did that get defeated?

**Mr Wightman:** Yes. The first application did get defeated. There was a further application, and, as Scott has mentioned, it was in connection with that that this group of ours got together and began studying the whole issue from our several points of view. In the course of that, notions about working on the demand side came about. As I say, none of us represent ourselves as experts in the field.

**The Chair:** Thank you very much, gentlemen. We appreciate your presentation.

**Mr Wightman:** You're very welcome.

1440

#### CUPE ONTARIO/CUPE LOCAL 1

**The Chair:** Next we have CUPE Ontario/CUPE Local 1, Mr O'Keefe and Mr Bruno Silano. Welcome, gentlemen. Just for Hansard, could you identify yourself, sir, if you're making the presentation?

**Mr Brian O'Keefe:** I'm Brian O'Keefe, secretary-treasurer of CUPE Ontario. On behalf of the 200,000 CUPE members across the province of Ontario, we thank you for the opportunity to provide our views on Bill 100. We represent several thousand members in this sector, in particular the workers at Toronto Hydro, which is the biggest municipal utility in Canada. I'm pleased to have here the president of that local, Bruno Silano, who will be making comments on the bill later on in this presentation. I also have John Camilleri from that local with us today as well.

Ontario's electricity policy is probably one of the most critical issues that the Liberal government is going to be facing. It has huge implications for the citizens of this province, for the economy, and it will provide a legacy for future generations.

Regrettably, the previous government messed up in this area and has created a disaster, from which we now have to find our way out. The challenge for the current government is to find a way of dealing with this issue. Unfortunately, we feel that the plan that has been provided by Premier McGuinty and Minister Duncan is not the way to go. The plan that we have before us is very much the same as what the Tories produced. It's a failed system and we don't think that undermining public power in this province and deregulating the sector is what's going to meet the challenge we have in front of us. In fact, it's going to make things even worse than what we've got already.

In order to provide safe, reliable, adequate and affordable energy in this province, we need to rebuild public power. There is no better way to ensure that we have adequate power in this province than to ensure that it's publicly delivered and publicly regulated. We feel that any other route on this is going to create an even bigger disaster than we have on our hands already.

If I may address the whole public-versus-private issue, the Minister of Energy and the Premier have stated that the hybrid system they're promoting is the best of all possible worlds: It's a composite of regulated market and competition, and this will give the best of all possible results. We don't think that's the case at all; in fact, exactly the reverse. It's not going to work. It is almost identical to what we have on our hands already. The statement has been made by the minister to the business community to get the private sector to invest in the system, but the reality is that unless the prices are exorbitant in the spot market, the private sector is not going to come forward. Quite clearly, they have stated already that in a partially deregulated market, it's going to take huge returns for them to take any sort of an interest as well, with the added fact that you will have fluctuating rates, which is another reason why they're going to give it a wide berth.

This is the reality of what we're dealing with. That investment for generation is not going to be forthcoming, so we're going to go to the fallback position, which is where bets are being hedged here. We're going to resort to the public power authority, which is going to be issuing fixed contracts. This is going to make a mockery out of the whole concept of the market. It's basically going to be a monopoly situation, where there are going to be huge contracts awarded to private sector operators. This is not going to be in the interests of the citizens of this province; it's going to be in the interests of shareholders and the big corporations. That is a huge concern to us.

Before I pass it on to Bruno Silano to talk about NAFTA and some other issues, I just want to emphasize one other factor as well. This is outlined in a brief that we are attaching to our submission from Steve Shrybman from Sack Goldblatt Mitchell around the lack of public scrutiny and review within those procurement contracts that will be forthcoming from the public power authority. That is a huge weakness in this particular piece of draft legislation.

With that, I'm going to pass it over to Bruno Silano.

**Mr Bruno Silano:** Thank you, Brian. I'm the president of CUPE Local 1, representing Toronto Hydro workers. I just want to address the committee on a couple of issues. The first is NAFTA.

Whether the hybrid plan works or not, significantly increasing private sector involvement in the electricity system will have the critical effect of exposing the electricity system to NAFTA and other international trade regulation rules. As other presenters have pointed out, NAFTA gives international corporations the authority to overrule our own laws and policies and the ability

to make huge financial claims against public funds, and puts public control at risk.

Several significant risks arise from privatizing electricity supply in light of Canada's obligations under the NAFTA and WTO agreements. The precise manner in which these trade disciplines will apply to a particular procurement agreement will depend upon the terms of that agreement and the nationality and character of the corporate entities involved.

Suffice to say, the important point is that the legal consequences of these procurement agreements cannot be assessed only having regard to Canadian contract law, but must have regard to international trade law as well. Of particular concern are the extraordinary rights and remedies enjoyed by foreign investors under NAFTA, which have no domestic legal analogue.

One way to illustrate this point is to consider that under section 25.30, "The parties to a procurement contract shall ensure that the contract provides a mechanism to resolve any disputes between them with respect to the contract."

However, under NAFTA, and no matter what the procurement contract may provide, a foreign investor will have the right to invoke international and binding arbitration to claim damages where it alleges that some action by the government, the OPA or the OEB, for that matter, has interfered with its rights as a foreign investor under the trade regime. Where such disputes arise, they will be resolved in accordance with the secretive norms of international commercial arbitration and international law, which offers significantly greater protection to property rights than we have deemed appropriate under our own Constitution.

The people of Ontario want a regulated public power system with democratic, public control.

A few words on rates: In all of these scenarios for increasing private generation and supply, prices will go up and up, more than they would have if we were rebuilding the public power system. The International Energy Agency has found a consistent pattern of cheaper power under publicly owned utilities—from 16% to 20% cheaper on average than private utilities—for a number of reasons. Both private companies and public utilities have to borrow money in order to build generating plants, but the cost of borrowing is higher for private utilities than for public ones. Investors are also looking for at least 15% profit, a cost that public utilities do not have to cover.

#### 1450

Even the World Bank has acknowledged that privatization of electricity in a situation of high demand and short supply, such as we have here, by replacing coal plants, for example, is unsuitable because it can result in easy market manipulation by private sector generators and therefore lead to price gouging. Increases in the price of electricity are defended as "the true cost of power," as we've heard from both the Premier and the Minister of Energy, as if people haven't been paying for the power they use. The people of Ontario should only be asked to

pay the true cost of public power, but not additional costs of private power, private markets, private retailers, and commissions that those retailers will receive.

Electricity is a basic necessity, and universal access must be our goal. Essentially, this means we have to have a regulated market to spread the cost of electricity around as rationally and equitably as practicable.

A few words on local distribution utilities: We are pleased to see that the Electricity Restructuring Act includes a key role for local distribution companies, or LDCs, in conservation and energy efficiency programs. CUPE believes the best way to meet energy conservation targets is through publicly owned LDCs. In order to be successful with that aspect of Bill 100, the government will have to go further and remove any rules or regulations that discourage an LDC from or financially penalize an LDC for engaging in energy conservation efforts. We strongly recommend that local utilities be compensated for any savings resulting from their own investment and their customers' savings stemming from conservation initiatives. The government need only look at its natural gas regulations for examples. Electrical utilities should be treated in a similar manner, with rewards for conservation, funding provided to deliver conservation programs, and compensation for lost revenues.

Unfortunately, Bill 100 fails to address a central issue for LDCs. Under the former Tory government, local distribution companies were required to restructure themselves as for-profit corporations, weakening their public service mandate in favour of cost-cutting and revenue generation. Thus, spending to maintain performance and reliability takes a back seat to investment in system expansion and executive compensation. The Harris and Eves electricity policy also made it easier for LDCs to be privatized.

There is a strong case for amending Bill 100 to reverse the corporatization and privatization initiatives of the previous government. Thus, LDCs would be restored to their previous status as not-for-profit entities owned and controlled by the communities they serve.

Moreover, LDCs are now saddled with debt created entirely by government policy and not by their own initiatives. Faced with severe financial restrictions over the past few years, some municipalities have started to look at LDCs as revenue generators. Some have even started to sell off the debt, transforming it from virtual to real, in a form of back-door privatization. The Tories' Bill 210 contains a poison pill that requires each of these LDCs to pay off this virtual debt by 2012. LDCs have to be returned to non-profit status with a clear mandate of public service.

For these reasons, as is described more fully in the legal opinion we attach, we believe the following reforms to Bill 100 are required:

First, the provisions of section 29.1 should be clarified to make clear that transmitters and distributors must not only be empowered to provide services "related to the promotion of electricity conservation," but to provide

those services directly. Similarly, with respect to load management and alternative and renewable energy sources, the bill should be equally clear about the authority of local utilities not only to play a direct and indirect role in providing programs and services necessary to foster such initiatives, but also in establishing and operating such programs and facilities.

Second, the bill should also clearly indicate that LDCs may make investments in efficiency, conservation, demand and clean energy initiatives, whether these are solicited by the OPA or not.

Third, the bill needs to address important impediments that will continue to restrain the true potential for conservation, demand management and alternative generation. As CUPE and others have noted in submissions to the OEB, these models are well developed for gas utilities, but the OEB has declined to implement such a model for the electricity sector, and need for this critical reform is ignored by Bill 100 also.

Fourth, because local conservation and demand measures alleviate pressures on transmission and distribution systems and are much preferred environmentally, the rate regulation should offer preferred treatment for investments in reducing demand as opposed to enhancing supply.

Last, the bill should indicate that provincial conservation targets are to be regarded as a minimum and not caps.

Other forms of local generation: There is also a strong case for local utilities to play a much greater role in providing conventional generation at the local level. These would be small to mid-sized generation facilities that could be matched in scale and timing to the needs of the communities being served but which would have the added benefit of reducing demands on the provincial transmission grid.

I'll now hand it back to Brian O'Keefe. Thank you.

**The Chair:** Just to let you know, you're just about out of time, and if we could keep a minute for questions for Mr Kormos, maybe.

**Mr O'Keefe:** I just want to say that we've given you a detailed submission and we're not able to deal with all our points here. We would be very happy to entertain questions.

**The Chair:** Mr Kormos, you're up on this rotation. You have about a minute, sir.

**Mr Kormos:** Your references to NAFTA are very important, I believe. We heard from Wayne Samuelson of the Ontario Federation of Labour earlier today, expressing the same warnings. What does it mean in real terms about Ontarians being able to not just own, because we know we're relinquishing ownership, but to control electricity, including the price of electricity?

**Mr O'Keefe:** I think the very real and tangible example we can all look at is Highway 407. We've lost control of the rates, the tariffs charged by that consortium. We've seen that the provincial government is unable to stop it, and I suspect that even if the provincial government were to be able to stop it, they would resort

to some of these international trade laws in order to have that decision reversed.

So it's a very dangerous area when we open up our electricity sector to private-sector generation, in that those companies will not be restricted in what they charge us for electricity. As soon as we try to say, "Introduce a rate cap," they would very quickly, I suspect, revert to these international tribunals under NAFTA and the WTO to seek a remedy. We've seen this happen at the federal level, where UPS has, in fact, taken on Canada Post. They see Canada Post as being subsidized by the federal government. The awards are usually in the hundreds of millions of dollars that the public is then on the hook for.

**The Chair:** Gentlemen, thank you so much. We appreciate your presentation today.

#### FALCONBRIDGE

**The Chair:** Next, I would ask Lauri Gregg to come forward from Falconbridge, please.

**Mr Lauri Gregg:** Thank you, Mr Chairman, for giving Falconbridge the opportunity to present before the committee. I am Lauri Gregg, the director of energy for the company. I am also past chair of AMPCO and currently on the AMPCO board.

Increases in electricity prices or any changes in the electricity sector are a serious issue for the company, so it's important for us to be here and present. I've provided a PowerPoint presentation, which I've given to the clerk and which I'll refer to during my presentation. Falconbridge hasn't submitted a formal document, but we stand behind the detailed documents submitted by the Ontario Mining Association and also AMPCO as representing our detailed views.

In the presentation, there are three messages that I would like to give. First off, our Ontario facilities are very sensitive to increases in electricity price simply because, by our very nature, we are electricity-intensive. Second, on a global basis, electricity represents a competitive issue. Finally, we believe that the changes of Bill 100 can be implemented without substantial increases in electricity price.

Falconbridge is the third-largest producer of nickel in the world and the eleventh-largest producer of copper. In the presentation that I've handed out, there's a chart that looks like this. The red band represents Canadian production of our three commodities that we produce here in Ontario, which are nickel, copper and zinc. Our largest portion of production globally is 10%, which means that we face severe global competition. It also means that the price for those commodities is determined by the true laws of supply and demand, which means we're price takers. We can't pass on any increased expense to produce our product to our customers. This is unlike the situation for electricity utilities here in the province.

#### 1500

In Ontario we have operations in Timmins—copper, zinc—and nickel operations in Sudbury. We employ

3,000 people. According to a survey carried out by the Ontario Mining Association, each one of those employees contributes, directly or indirectly, \$200,000 to the Ontario economy. We exist in northern communities, and our presence there is extremely important to the vitality of those communities.

We are large electricity consumers. We can consume as much as two million megawatt hours—two terawatt hours—per year. This is the amount of electricity it would take to power 200,000 to 250,000 homes. We're the second-largest direct-connect customer to the IMO grid. But the most important thing is that electricity represents a significant portion of our operating costs. For example, for mines it can be 10%; for smelters and refineries it can be as much as 25%. Over the years we've paid, on average, \$100 million per year for electricity.

I will now refer to a price comparison chart that has been developed by AMPCO. The key message there is that Ontario is one of the highest-priced jurisdictions in North America. We have direct competition from Inco, located in Manitoba, where electricity prices are some 57% lower than here in Ontario. We have alternative production facilities located in Quebec, where the prices are 21% lower than they are here in Ontario. For every \$1 a megawatt hour increase in electricity price, our cost goes up \$2 million annually. These kinds of significant increases can quickly erode our margins. If increases in electricity prices are substantial, it could jeopardize the viability of our operations in the province.

Electricity is also a key factor in our investment decisions. We're a global company. We have global facilities competing annually for capital. We invest where the return is the greatest. There are projects in Ontario that are competing for capital as well. With substantial increases in electricity, these projects could be marginalized.

One would think that with the current demand for metals and the current high metal prices, we can sustain increased electricity prices or increased natural gas prices. Well, that just simply isn't so. The reason is seen—and I'll refer you to this chart—on page 10 in the presentation. It's a price curve, in this case, for nickel. The message here is that metal prices are cyclic. Unfortunately the low part of the cycle lasts eight to 10 years, while the high portion of the cycle lasts two to three years or less. Right now we're into the second year of a high-price period. So in reality, we feel as a company that high electricity prices are not sustainable in the long term.

Let's turn to Bill 100, the potential changes and the cost of those changes. Again, AMPCO has developed a projection based on the changes suggested by Bill 100, and they came up with a price which is a bit horrifying: an increase of 53% by 2008. Admittedly, that's at higher gas prices, but even at moderate gas prices the increase is 30%. In my opinion these kinds of increases could have a staggering negative effect on all industry in the province, not just Falconbridge. The other reality is that we as residents here, as Ontarians, are going to have to pay these increases as well.

It's my belief—and I've listed the price adders on page 14 in the document—that the price impact of these price adders can be reduced by the following methods.

The most significant increase in price is going to be the increased cost of energy. The components there which add to that are the price of electricity generated by the heritage assets and the price in the contract market, which is currently driven by the two-tier rate structure and which now has a floor of \$55 per megawatt hour.

Let me speak to the heritage assets. This price is going to be determined by the OEB. Our suggestion is that it needs to be determined in a public, transparent hearing where all the costs of generation are brought forward, and then a fair price can be determined. It's my opinion that this price is not going to be much higher than the \$38 per megawatt hour that the MPMA or the business protection plan dictated.

As far as the contract market is concerned, my suggestion there is that the two-tier rate structure be restricted to low-volume consumers, pushing medium-volume consumers into the wholesale market.

Now let's talk about OPA administration charges. These can be balanced off by equivalent reductions in IMO administration charges and the elimination of whatever charges the OEFC makes at this point in time.

The conservation charge can be mitigated if the funds that are collected from industry are segregated for industry use and if effective energy efficiency programs are designed for industry. A point I want to make here is that energy efficiency should not be considered as a mitigating action for short-term increases in electricity price. Energy efficiency improvements, by their very nature, are incremental and long-term.

The NUG charge should be balanced by an equivalent reduction in the DRC.

The OPA capacity charge can be minimized by paying loads for demand response, by minimizing the amount of natural gas-fired generation in the mix and by optimizing the output from our current generating assets.

All in all we feel that the government can implement Bill 100 and need not increase the electricity price substantially.

Finally, I will say that we've invited Minister Duncan up to our facility in Timmins. We hope he takes us up on that offer. We believe it would be an important opportunity for him to speak to operators of an electricity-intensive facility and also to members of the community there.

With that, I conclude my remarks and will happily take any questions.

**The Chair:** We have about three minutes for questions. On this rotation we'll start with the government representatives.

**Mrs Cansfield:** That was an excellent presentation. I know you've had an opportunity to sit down with Marion and discuss this at great length.

One of the questions I have for you is about what I heard recently around a recovery process for—and let me know if I have the term wrong, Lauri—the sludge out of

the mines. It's a process to go back—it's almost like an anaerobic digester process to go in and recover the minerals, though. Are you looking at that? Again, that's another source.

The other question is around cogeneration. Can Falconbridge do anything around cogeneration?

1510

**Mr Gregg:** We're not doing the leaching of sludge. I suspect that Inco might be doing that.

Cogeneration is an interesting animal. Actually, we considered that back in the 1970s and also in the early 1990s, but because of the nature of our facilities we don't have a need for the steam that would make cogeneration effective. Even in 1995, when I last looked at that and the price of natural gas was a dollar a gigajoule, it was uneconomic for us. We only have one facility that that would serve, and that's the Timmins facility.

**Mrs Cansfield:** There's just the one. Isn't that interesting? Because it's something that's certainly—I can't speak to North America in my reading as much as I can in Europe, but a lot of the mines in Europe are looking at that, and some have actually gone that route.

**Mr Gregg:** It depends on whether or not you can use steam or hot water in your process.

**Mrs Cansfield:** Can you use anything other than you currently use, which is the electricity?

**Mr Gregg:** For our process, no.

**The Chair:** Anything else? Mr Arnott.

**Mr Arnott:** I just want to thank you very much for your presentation. I too hope that the Minister of Energy will take you up on your offer to come up to Timmins to participate in a tour. If you don't, according to the Toronto Sun anyway, if you have \$5,000, you can play golf with him sometime. You may have seen that. If you haven't, I can send it over to you.

The Liberals hold a substantial number of seats in northern Ontario. You've expressed very well the economic impact that a huge increase in hydro prices will have on Falconbridge in your operations, and we heard today from a company that represents the pulp and paper industry in Thunder Bay. I would just suggest to you that you reach out to those local MPPs whose job it is to represent the interests of the north—they've been elected to represent those constituencies—and to aggressively lobby them about the impact of these changes you're concerned about and seek answers from them, because I think you're entitled to them. I think we have to be very sensitive to not only your company's interests but your industry's interests if we're going to maintain jobs and an economic structure in the north. So I would commend you to that and wish you well as you pursue those MPPs in the north who sit with the Liberal caucus.

**Mr Gregg:** Thank you.

**The Chair:** Mrs Cansfield? Quickly.

**Mrs Cansfield:** I just wanted a quick point of order, some clarification. In fact we did present to both of the opposition parties an opportunity to participate in 15 different areas of this province. We were supposed to go to Sudbury, and it was cancelled. It's not to say that our

heart isn't here with you. We understand your issues. I know you have Minister Bartolucci, who is keenly interested in what's happening in the north—

**Mr Gregg:** Yes. He's been talking to us a great deal.

**Mrs Cansfield:** Absolutely, and you've been in our office many times. So certainly it's not from this side of the House that you're getting opposition to finding solutions to your problems.

**The Chair:** Thank you very much, Mr Gregg. We certainly appreciate your presentation today.

**Mr Gregg:** Thank you very much.

DEREK PAUL

**The Chair:** I now ask Derek Paul to come forward, please. Welcome, sir.

**Dr Derek Paul:** Thank you very much indeed. I asked the clerk to circulate a brief. I hope that has been done and that you have it.

**The Chair:** Yes. The clerk has circulated the materials, sir.

**Dr Paul:** My brief deals only with one aspect. We've heard a great deal about conservation—I've certainly heard the minister talk about the importance of conservation—but I don't think anybody has yet emphasized the fact that it doesn't usually just happen. If you want to have a conserver society when two successive generations of people have been brought up without any sense of conservation whatever, it's a much more difficult thing to bring about than you would think.

If you look at page 2 of my brief, you will see a number of points with little circles around them, going from the year 1985 to the year 2003. Those points represent, on a logarithmic scale, which goes up the left, the actual consumption of electricity by Ontario from 1985 to 2003. As you can see on the graph, it was pretty steeply upward in the 1980s. It then declined very slightly—it was almost level for a while—and over the last 11 years it has averaged about a 1.5% increase per annum. During the last three years, it has, according to Mr Duncan—and I agree with this, because it agrees with these figures—averaged almost 2% per annum. So it's a little bit steeper now than it was five years ago.

In 1993, MacNeill and Runnalls published a report in which they pointed out that in Ontario we could easily economize 30% in our electrical consumption. At the 1992 mark—because of course they used data from 1992 and before—I've put a big "X" 30% below the actual consumption for that year. Then I've assumed, just hypothetically, "Suppose we could have got down to that level?" Then of course we would have increasing consumption if we didn't change our habits, because of the population increase. So the line you see on that graph corresponds to the MacNeill and Runnalls economy society in which the population nevertheless is still going up very slightly.

The reason I'm here today is because I feel that this committee could play an important role in bringing Ontario electricity customers, one way or another, down

from the line we are on now, which is at a slope of nearly a 2% per annum increase, to the lower one of MacNeill and Runnalls, and that it could do it in a very few years. But I don't think this is going to happen accidentally. I think it's going to happen if there's a great deal of education, persuasion, incentives to economize and disincentives to waste. I think those four factors have to be in there.

I've got three recommendations, which I won't read you. The first one has already partly been adopted, because we have in Ontario now this conservation, energy efficiency and renewables branch. The next two recommendations are goals that I think should be followed.

The fourth recommendation is different in kind. It's the following: In modern society, practically everything we do impinges on everything else we do. It would be quite possible for the minister to say, "Ah, yes. We can economize a great deal in energy if we do this and this and this," only to discover that that's the purview of the housing minister or the minister of transport or something else. So we need a supervisory committee or a superministry in Ontario that can make sure that things happen across the board and that they're not just restricted to the particular considerations that at the present time the Minister of Energy has the right to make decisions on.

My last recommendation is that the government should set up a round table to consider measures that would have the effect of reducing Ontario's electrical consumption. That sounds the same as the ministry's conservation, energy efficiency and renewables branch, but it isn't. The concept is that that branch should open discussions to the public in some way. I have a letter here, which I received this afternoon, from Mr Duncan. He obviously didn't dislike that idea, and he says that Mr Gregor Robinson of the ministry's conservation, energy efficiency and renewables branch would be pleased to meet with me and discuss that particular proposal. I think that if this committee would give a bit of a push to that idea, it might help.

**1520**

I lived part of my life in Europe. I know a great many people in this province, and I know that most of them are profligate wasters of energy. I personally believe, if you go back to page 2 of my report, that we could economize more than 30%, which is why I've drawn the curly bits of that graph the particular way I did.

Finally, there are two final sections in my brief, one of which is called "Replacing electrical generation from coal." I do not want to get into technical matters, but I did want to present three questions before this committee that some of you, some new members of Parliament or even old members of Parliament who have been in before, might not know about.

The first is on the back of my report, and it is the standard objections to nuclear energy which have never been answered. The second is about hydroelectric dams and the harm that many of them do. The third is a general question about how myths are built up in government and

that those myths enable us to go forward and do the things that we then do afterwards.

The unfortunate thing about myths in the present time is that we are moving into a very difficult century, and I think that myths constructed in the 20th century need to be looked at very hard as to whether they have a basis in truth. So I've said a little bit about myths, and I hope you will take it seriously because I have quite a bit of experience in dealing with Ottawa and not nearly as much, I regret to say, with Ontario, where maybe the myths aren't quite so entrenched.

I hope I've got some time left. Is there any?

**The Chair:** Yes, about four minutes, sir.

**Dr Paul:** Please ask me questions.

**The Chair:** Absolutely. In this rotation, Mr Arnott is first.

**Mr Arnott:** Thank you very much, Dr Paul, for your thoughtful presentation. I've long admired the work of the Pugwash Group, and you're a big part of that organization. You deserve credit for that. Your ongoing work there is sincerely appreciated by a lot of people.

**Dr Paul:** I've been in it 28 years.

**Mr Arnott:** Almost since its inception.

There was a presentation earlier this afternoon from the Canadian Federation of Independent Business. I know you've been here for a while; I don't know if you heard it. But it was suggested that the government—the Legislature, really—should have an office of the provincial electricity auditor, an independent officer of the Legislature. I was just thinking that it's very similar to what you're suggesting, in a sense, when you say in one of your recommendations that there needs to be—

**Dr Paul:** Number 5?

**Mr Arnott:** Maybe it's 5.

**Dr Paul:** Possibly. It's a little different. I like the idea, but I think it's slightly different.

**Mr Arnott:** No, I'm sorry. I was thinking of recommendation 4: a supervisory committee or a superministry to oversee the related questions pertaining to consumption, generation, town planning and so forth. I was thinking that that could be part of the mandate, in theory, of an electricity auditor, could it not?

**Dr Paul:** Well, I know that there have been committees in the Ontario government which span several ministries. The question always is, do they have enough clout? This one needs to have clout.

**Mr Arnott:** I guess the big issue that comes up from time to time with a lot of presenters—it doesn't matter what their perspective or their orientation or their philosophy is with respect to this issue—is that quite often governments plan on a four-year cycle, and they should be thinking long-term with respect to hydro issues: 20 years. My experience around here has been that quite often governments get trapped into what's actually a three-and-a-half-year cycle, where they try to put through their initiatives and their agenda in about a three-and-a-half-year period, and then they're ramping up for the election, if there's a majority government.

I see that to some degree as a failure of the individuals who are in the government. Certainly we've got to apply our thinking long-term with respect to this issue and not just get caught up in the short-term electoral cycle. Obviously that's something that's on our minds to some degree, but surely we should be thinking about the public interest over the long term to a greater degree. I think that's consistent with what you're saying here.

**Dr Paul:** It would be very nice if we could get all-party agreement on some issues. The problem is that the interests of some citizens actually conflict with those of others. I was listening to the man from Falconbridge, and I realized that what I'm recommending is more or less irrelevant to his concerns, except for the pricing. There we would be in conflict but, then, I have other ways that I think that can be dealt with. However, we can't get into that now.

**Mr Ramal:** Thank you for your presentation. I was listening carefully to it. It doesn't conflict with our approach, unless you have seen different things from Bill 100 that you want to add or advise us to do, besides asking the public to participate in monitoring the whole electricity system.

**Dr Paul:** I think that if you don't get them to participate, the economy factors won't happen, or they will happen very minimally. Although I said that governments don't like to play with human habits, my wife pointed out to me that, since I came to Canada 51 years ago, people have learned to pick up their dog shit when they go for walks in parks, so people are capable of learning new things. But as she said, 51 years ago people would have been horrified if you'd asked them to do that, and now they're all doing it. So it is possible to change human habits.

In electricity, we are very, very wasteful. I can give many examples.

**The Chair:** Ms Wynne, did you quickly have a question?

**Ms Wynne:** Yes, I just had a quick question. You've suggested a supervisory committee or a superministry and a round table. I'm just looking at the structures that we've suggested in the bill—the conservation bureau and a number of advisory committees. Could you just comment on the relationship between what you're suggesting and what we have put in the bill?

**Dr Paul:** Not really, but I can comment on the supervisory committee. It happens quite often in government that one ministry does something very good, but it can't force it on another one. I could give you examples of that on the climate change. NRCan had some initiatives which it couldn't force other departments of government to adopt. If it had been able to, it would have meant a very great deal of savings on heating federal buildings, but they weren't able to swing that.

I can imagine ways right now. For example, one of the things I would like to see is that all hot water heating in new neighbourhoods in Ontario would be solar. But you need other ministers to agree to that. Your supervisory committee, the one I'm envisaging—and I don't know

how to set it up—would have the clout to say, "Oh, yes, we've got to go that way."

**Ms Wynne:** Well, I just wanted to let you know that in the conservation action team that Ms Cansfield leads, we have had these conversations about how to make those interconnections. We talked, for example, about the Tenant Protection Act that is being reviewed at the moment and the need for there to be some sort of provision in there. Now, whether there will be or not, I don't know, but that kind of interconnection.

So I really appreciate your comment, and I know that we'll be taking that back to the minister.

**The Chair:** Professor Paul, thank you very much for your presentation today.

**Mrs Cansfield:** Chair, is it possible for us to get a copy of the Energy Strategy for Ontario that was submitted by Dr Paul on Bill 35 committee hearings?

**Dr Paul:** I have one here, if you want it.

**The Chair:** We'll make sure sufficient copies are provided.

**Dr Paul:** I only brought two, and the clerk has one. It's probably terribly out of date, but I did quote it. So here it is. I haven't even reread it. I know that it was good at the time, but I'm not vouching for it now.

**The Chair:** Thanks again, Professor Paul.

#### CANADIAN AUTO WORKERS

**The Chair:** I'd now ask Mr Nick De Carlo of the Canadian Auto Workers to come forward. If you'd like to proceed, sir.

**Mr Nick De Carlo:** Thank you. I'll just wait a minute until the people get copies, or shall I go ahead?

**The Chair:** You go ahead, sir.

**Mr De Carlo:** The CAW is the country's largest private sector labour union. We represent approximately 180,000 members in Ontario working in every sector of the economy. Our members work across a wide range of Canadian services and industries, including auto assembly, independent auto parts, aerospace, electrical, food and beverage, hotel, restaurant, gaming and general hospitality, specialty vehicles, airlines, railways, marine transportation, trucking, public transit and other road transportation, mining and smelting, fisheries, health care and general services. So we cover a pretty broad cross-section of the economy.

**1530**

We're here today because of our conviction that electricity is of central importance to the livelihood and well-being of the people of Ontario, the functioning of the economy and the protection of the environment today and into the future. A brief outline of our views follows.

Bill 100 proposes some important improvements for the generation and supply of electricity in this province. It is significant and important that the new electricity legislation proposes to reintroduce planning into the system. It is also important that the act gives a legislative mandate to promote conservation and the expansion of renewable energy. These are positive steps.

However, we have concerns regarding the following issues: the minimization of the role of the public sector in the production of electricity; the related issues of supply and pricing; the need for still greater emphasis on conservation as the key to the issue of electricity supply and price control; the need for greater provisions for the expansion of renewable electricity; the need for protection of consumers against exorbitant price increases; and, certain decisions regarding electricity production.

(1) Based on these concerns, we propose that schedule A, amendments to the Electricity Act, should include in its purpose ensuring the public control and provision of electricity, and ensuring the protection of public health and the environment.

(2) Part II.1, which is the Ontario Power Authority, schedule B, amendments to the Ontario Energy Board Act, and part II.2, the management of electricity supply capacity and demand, should include provisions empowering and mandating the OPA to be the main producer and seller of electricity in Ontario; requiring and mandating the OPA to make conservation the cornerstone of addressing supply issues; requiring and mandating the OPA to invest in and produce a significant increase in renewable energy and promote the use of renewable energy, thereby reducing the cost by economies of scale, while at the same time allowing for small producers of renewable energy to flourish; requiring and mandating the OPA to move away, in a timely manner and in a manner which ensures adequate supply, from current methods of electricity production that are environmentally destructive and unsustainable; ensuring universal access to adequate energy as a basic necessity and right; and requiring mandatory public hearings regarding pricing changes.

(3) The Electricity Restructuring Act should be reviewed and amended to reflect and facilitate these provisions. I haven't tried to go through, in detail, the ramifications throughout the act.

Public control and production of electricity: Though there is a need for specific measures to ensure that people and businesses that implement renewable and/or certain energy-efficient solutions can provide the benefits and extra power to the public grid, the main source of power has to be public. This is in order to ensure adequate supplies that cannot be hijacked or undermined by private interests; to minimize costs—the public can produce cheaper power than private, market-oriented producers; and to ensure that renewable energy is a paramount goal. It is important that significant public investment in renewable energy can reduce the cost of renewable energy alternatives and develop jobs, thus providing more labour-intensive alternatives for the workers currently employed in the nuclear and coal-generating electrical industries.

Conservation is the key. The reduction of energy consumption is the key to resolving the environmental challenge of global warming and to maintaining low-cost electricity. A study conducted by the Pembina Institute—and I know others have referred to this study—in asso-

ciation with the Canadian Environmental Law Association, showed that Ontario can cut power consumption by 40% by 2020, and do so affordably: \$18 billion invested in conservation does the same job as \$32 billion spent on nuclear, and there is no need to pay for fuel or retubing while consumers make 96% of the investment back through lower bills. What better solution both in terms of the cost of electricity and the protection of the environment? Yet we don't see this approach being given serious or clear and concerted attention in the proposed legislation. Though this type of program cannot be implemented overnight, careful planning, political commitment and sufficient effort can ensure that conservation, at low long-term cost, will benefit the environment and the economy.

Electricity, jobs and the economy: Significant investment in conservation, with new safe and renewable supply, will give an impetus to job creation, stimulate the economy and provide the energy supply that will keep industry functioning in our province.

Human health and the protection of the environment are essential. It is clear that the generation of air pollutants, dangerous wastes and greenhouse gases is threatening human health and the environmental balance. Eliminating coal generation and nuclear generation of electricity, while it has to be carefully planned and implemented to ensure that the required supply is available, must proceed in order to save lives and protect the future. These should be goals of the current legislation.

Universal access to electricity is a right. Because electricity is the fundamental energy that keeps individual households and the general workings of society functioning, it is and must be a fundamental right of all residents of Ontario to have access to low-cost electricity. Universal access is essential to ensure that our citizens have a decent standard of living. Public production of electricity is essential to ensuring universal access. Because public production minimizes costs, it can be used to ensure that pricing reflects costs. This is a better alternative than pricing based on market prices—market prices may be influenced by many different external factors. We also agree with others who have said that low-income consumers, especially tenants, must have access to the conservation programs that will sustainably reduce their bills.

Public hearings mandatory: The proposed act makes public hearings optional. This is not good enough. Accountability of government and of a public electricity system can only be ensured with transparency and the means for the public to have input.

I would just add by way of comment that we clearly agree with the arguments made around NAFTA. I think they're self-evident. I don't even think it requires much elaboration, given the history and given the arguments made in all kinds of other areas of the economy around this issue.

I'd just urge the government of the day to very seriously consider the direction that you're going in and what

that means to the future of the province, what it means to the future of people in the province, and to maintain public control over our future. If you have any questions, I'd be pleased.

**The Chair:** Thank you very much, Mr De Carlo. We have about four minutes. On this rotation we'd go to Mr Kormos, who isn't here. We'll go to Mrs Cansfield, the parliamentary assistant.

**Mrs Cansfield:** Thank you for your presentation. It was very thoughtful and gives me a lot of things to think about. I'm curious about the production of alternative energy. Are you suggesting—and I won't use the word because it tends to suggest a tax issue—a fixed-price contract for alternative energy, in particular wind?

**Mr De Carlo:** What I'm suggesting is that if the public invests heavily in wind and solar production, for example, it will help reduce the cost. Because of the economies of scale, it will actually spur homegrown industry that can build the supplies we need and it will stimulate the economy.

**Mrs Cansfield:** Actually, one of our other presenters has suggested there needed to be a mechanism whereby the individual or parties could participate in some sort of forum for renewable energy. Are you also suggesting that maybe you could tick off on your bill that you might like to participate in a renewable source of energy and pay an additional cent or something toward that?

**Mr De Carlo:** No, I'm not suggesting that. I think the government, representing the public, can actually play a major role in bringing that about. It doesn't require a survey or saying that you would like to participate etc. It simply means providing the alternatives. I think the support is out there. I don't think you need to find it out; I think it's clear. If people have the option, the real problem is to make sure it develops and that the prices are at the achievable level where people can actually afford it.

**Mrs Cansfield:** How would you propose that the government do that?

**Mr De Carlo:** By building wind farms, by investing in solar, by creating the major part of renewable energy alternatives through the public corporation.

**Mrs Cansfield:** So you want the government to be the supplier?

**Mr De Carlo:** Yes.

**Mrs Cansfield:** Thank you.

**The Chair:** Any further questions?

**Mr Arnott:** Thanks for coming in today and offering us your views on this. One of the issues that has come up quite consistently is the government's commitment to eliminate its coal-fired generation by the year 2007. I think, while all of us are concerned about air quality and the environment—we want to make sure that it's as clean as possible, and the goal of eliminating the dirty coal generation is something that's shared by all of us—we're concerned perhaps about the practicality of it, whether or not it can be done, and whether it can be done responsibly in three years and replace the generating capacity that is going to be lost, apparently 25% of the generating capacity of the province.

The Power Workers' Union has expressed very serious reservations about this policy and believes that the government is going on the wrong track. Would you care to comment on the views of the CAW on this issue? Would you share the views of the Power Workers' Union and be supportive of their concerns?

1540

**Mr De Carlo:** Our view is that the supply has to be there in order to eliminate the coal generation. But I think that's self-evident that you can't get rid of 25% of the supply without there being an alternative, so the problem is how quickly to build the alternative. My suggestion would be that if the public is involved through government, it can move more quickly toward that goal, and that's the objective. I can't tell you whether 2007 is going to work or not; that's up to the government to do. But the sooner the better.

**Mr Arnott:** I agree with you that it's certainly reasonable that supply would be there to replace it, or a combination of conservation measures or what have you, but we don't want to allow the lights to be turned off because of an irresponsible promise. At the same time, I'm not sure the government shares that view. It should be self-evident. I believe it's common sense, but I'm not sure the government—

**Mr De Carlo:** I can't imagine that in 2007 they're going to turn off 25% of the electricity generation if they don't have an alternative. I can't see that happening.

**Mr Arnott:** It'll be another broken promise.

**Mr De Carlo:** I'm not worried about broken promises; I'm worried about the future of electricity in the province.

**Mr Arnott:** It's our job as an opposition to hold the government to account, and to the extent that governments get away with broken promises, cynicism grows and politicians will feel that it's necessary to make irresponsible promises that aren't sincere at election time because you have to do that. I'd hate to see that happen further.

**Mr De Carlo:** They're not the only people who've broken their promises, first of all. Secondly, a broken promise is an abstract concept. You could promise to do it by 2007 and actually successfully achieve it by 2006, in which case you'd be breaking your promise.

Our concern is that we actually invest in the alternatives so that we can eliminate the coal generation and that we practically achieve it. My concern about the bill is that it doesn't move dramatically enough in that direction.

**The Chair:** Thank you very much, Mr De Carlo.

TERRY HOWES  
SLAVA GOLOD

**The Chair:** Next, Terry Howes, please.

**Mr Terry Howes:** With the permission of the Chair, I prefer to stand when I speak.

**The Chair:** That's not a problem at all.

**Mr Terry Howes:** I've taken the liberty of bringing along some samples of what I'm going to talk about,

because most people wouldn't be aware of what the stuff looks like. So I'm going to pass this around, if I might. This is raw peat. We've got more peat in this great province of ours than Saudi Arabia has oil, or that Alberta has in the tar sands. All we have to do is use our heads, and use it.

We're all painfully aware that it's the government's policy in the next very few years to close down our coal-fired plants because they're polluting like crazy. Something's got to be done about it, and we can't question that. The solution, ladies and gentlemen, is right under our very noses. By simply mixing with coal on a ratio of two parts of coal to one part of peat, we can cut down the pollution until it's below the threshold of where it's a problem to anybody. We could do even better if we make it 50-50.

This is a gigantic resource we've got, ladies and gentlemen. We're completely ignoring it. I brought with me today a gentleman by the name of Slava Golod, who is an absolute, unquestioned expert on this topic. He studied at Minsk university in Russia and ran a huge plant that burned peat in Latvia. He's an unquestioned expert on it. He will tell you that he cannot understand how we're ignoring this huge resource when all we've got to do is dig it up. It's about 12 feet down. As you know, it's simply decomposed vegetable matter. That's all it is, and it's about 12 feet deep. God knows we've got enough muskeg in this province—loads of it, no end of it. Anyway, we've got to dig it up, squeeze the water out of it and burn it, and that's all there is to it. It is not rocket science. It's done all over the world: in Russia, in Finland, in Ireland and elsewhere—and Germany too. Why aren't we doing it? I don't know the reasons for that.

Back in 1981, the government of the day authorized a report on peat. This report has been completely ignored all these years, but you can find it just downstairs in the library here. This report says exactly the point I'm trying to make to you. For example, it says in one of its conclusions that the direct combustion of peat in thermal and electrical energy production relies on well-established technology, which is applied in the USSR, Ireland and Finland. They've been doing it for years and years, and why aren't we, particularly now? Let's face it: We're in one big fix. That's the point I'm trying to make to you.

I would like any questions you might have to be directed to Mr Golod here, who is a world expert on this topic. I'm not a technical person. I'm just an ordinary businessman, but he is a technical guy and he'll answer any questions you might have. He cannot understand why we don't use this gigantic resource which we've got more of than anyone else in the whole world. Please ask him any questions you might have.

**The Chair:** Thank you, Mr Howes.

Sir, your name is?

**Mr Slava Golod:** Slava. S-L-A-V-A.

**The Chair:** Are there any questions? Yes Mrs Cansfield, the parliamentary assistant.

**Mrs Cansfield:** Slava, maybe you could help all of us understand how this process actually works, what type of

infrastructure it needs to work and, on a comparison basis, does it emit the SO<sub>x</sub>, the NO<sub>x</sub>, and the CO<sub>2</sub> issues? It must deal with CO<sub>2</sub>. If you could just sort of give us an overview, it would be helpful.

**Mr Golod:** Yes, sure. First of all, I would like to explain a little bit what peat is. Peat is decomposed vegetation, or you can call it the first stage of coal. It's young, young coal, and it's a carbonized product. It has about 50% to 60% carbon. In its natural state it has also 90% water. You can't use it at 90% water, so in order to be able to use it, you have to dewater it to 50%, as is being done in Ireland, Finland and Russia. We developed a product that's 10% moisture, and in this stage it can replace coal. Basically, you can burn it instead of coal in present plants with very minor adjustments, and this is being done in Finland.

I just attended the international peat conference in Finland two months ago. They just recently opened the first plant in Finland, and they produce this stuff and use it. Actually, in Sweden, peat has a green certificate, so they call it renewable energy.

It reduces pollution, because peat has much less sulphur and mercury content. It has virtually no mercury at all. While you burn it, it does release some CO<sub>2</sub>, because a natural bog acts as a carbon sink.

What else does it do? A natural bog releases methane, which is a much stronger greenhouse gas. So by harvesting peat land, you reduce this amount of methane and you release some CO<sub>2</sub>. But at this time it's very difficult to calculate exactly the amount of methane. We are working on it now.

**Mrs Cansfield:** Are you doing some sort of study or what they call a benchmark or whatever it is, a pilot?

**Mr Golod:** Yes. Actually, I've just been recently employed with a company called Peat Resources. It's here in Toronto, and they renewed their project. They started back in the 1980s and early 1990s, but back then, because other sources of energy were so cheap, no one was worried.

**Mrs Cansfield:** Can you use it in existing coal plants?

**Mr Golod:** Yes, it can be used, with minor adjustments.

**Mrs Cansfield:** With minor adjustments. Thank you.

1550

**The Chair:** Ms Wynne, and then Mr Ramal.

**Ms Wynne:** You used the word "harvesting" peat. What's the cycle of production?

**Mr Golod:** The first stage would be, again, what's being done in Europe. They use the dry harvesting method. They make the ditches, they dry it and they harvest it. They can do it only a couple of months per year, usually in June, July and August. It is being done in some parts of Canada like New Brunswick and a couple of countries—

**Ms Wynne:** But then how long does it take to regenerate? That's what I'm asking.

**Mr Golod:** To regenerate, it takes about 10,000 years.

**Ms Wynne:** There you go: 10,000 years.

**Mr Golod:** But you can see it being regenerated, because it takes only one to five years to re-establish live vegetation and the bog starts to grow again. After harvesting is ceased—

**Ms Wynne:** But you don't get more peat for 10,000 years.

**Mr Golod:** No. But you return this place to its original state, and it acts as a carbon sink and it filters water.

**Mr Ramal:** What's the cost factor, the effect of this whole project?

**Mr Golod:** The company identified back when they did this study that it was \$1.60 per gigajoule.

**Mr Ramal:** How much energy is produced?

**Mr Golod:** Its energy content is much more than wood but less than coal. It's about 9,000 BTUs per pound or 5,000 kilocalories. It's more energy efficient than lignite but less than hard coal.

**Mr Howes:** Could I bring to the attention of the committee page 4 of our little folder here, in which you'll see two huge coal-burning plants in Thunder Bay and Atikokan. Between Thunder Bay and Atikokan, there's a great big bog called the Goodfellow bog. The peat I passed around came from that bog. It's an easy drive to both Atikokan and Thunder Bay. Simply by adding this peat to their fuel mix, we can bring below the threshold the pollutants from those plants and keep using them. God knows we need them. One quarter of our power comes from coal-fired plants. We can't afford to do without them, and we don't have to. That's the point I'm respectfully trying to make to you guys. He knows what he's talking about.

**The Chair:** Mr Arnott, quickly, do you have a question?

**Mr Arnott:** No, I don't, but thank you very much for your presentation.

**The Chair:** Thank you very much for your presentation.

#### POWER UP RENEWABLE ENERGY

**The Chair:** Next I would ask Power Up Renewable Energy and Mr Kotwas, the director, to come forward, please.

**Mr Chris Kotwas:** Good afternoon. Thank you for this opportunity to make our presentation. My name is Chris Kotwas. I am a project manager in the electrical industry. My partner is Matthew Fairlie, former chief technical officer with Stuart Energy. We are both acting directors of a newly formed co-operative, Power Up Renewable Energy, known as PURE, located in Dufferin county, one hour north of Toronto, in the beautiful hills of Mulmur. This just happens to be the highest point in southern Ontario.

We are here to represent our members as well as many others in our community and, I'm sure, other communities throughout Ontario. Please be aware that there's an overwhelming interest from people wanting to

participate in the energy market at both the individual and community levels.

At our first general meeting with approximately 200 attendees in the small town of Shelburne, most people's questions were directed at becoming self-sufficient. Our advice to everyone has always been to look at all the possible conservation strategies first before considering investing in any renewable energy systems. Conservation education has always been PURE's first priority. I believe, however, that there is enormous opportunity in combining both.

Allowing the community to participate in renewable energy projects will be the single largest driving force in achieving our first objective of helping to create a conservation culture. By allowing people to produce their own power, they are now in the business for themselves. By being engaged in this process, they will learn the difficulties and, with this committee's help, reap some of the rewards of this process. They will be far less willing to waste this necessary commodity in our society called electricity. Having community renewable energy projects start to permeate the landscape of both rural and urban areas will be a constant reminder of the values Canadians put on this commodity.

Please let me allow Matthew, who is heading up our education initiative, to tell you more about Power Up Renewable Energy and how the people in Ontario and Bill 100 can work together for all to benefit.

**Mr Matthew Fairlie:** Thank you, Chris. I'd like to also thank the committee for this opportunity to present our view of Ontario's energy future and our comments on Bill 100.

To begin with, what is PURE? Here, I'm not just talking about virtue but also about energy and the energy co-operative that we've formed in Dufferin county. It was created about the time of the release of the Electricity Conservation and Supply Task Force report following the power eclipse we had last summer. We call it an eclipse because there was very little we could do to change the motion of the celestial utilities. I would mention that some of us were in the dark longer than others. It took quite a long time for our community to come back on-line.

PURE is a community action to address concerns of a growing group of our residents with regard to where we're going in energy supply and services, and the threats and opportunities we see in our energy future. The threats have already been voiced with concerns about the choices the province must make. The opportunities, of course, are that we can participate in this future to achieve our community goals, and we believe that renewable energy and conservation can go a long way to getting us there.

Power Up Renewable Energy is a non-profit organization of about 150 members, incorporated at the beginning of this year. Our vision is a secure, sustainable community-based energy system which enhances the quality of life in our community and is in line with the values we place on environment and social responsibility.

Our mission is to make this happen, not in a direct way by building power plants, but to encourage the development through the influence of our membership and its purchasing power and its ability to enable developers and businesses inside and outside the community to make this happen, based on the belief that there is a value proposition for sustainable energy even today, but also recognizing that building this value proposition beyond the membership of PURE to the community as a whole is a long process.

At the top of our list is community awareness and education: further down, providing support for market design changes that will reduce barriers and support the value proposition for renewable energy and conservation, leading to support of renewable power generation initiatives, both home power and community-based.

I would remind the committee that Dufferin county is some of the highest ground in the province, an appropriate domain for PURE, you might say, and has good wind and micro-hydro potential. Through these actions, we hope to create a core stakeholder group for sustainable energy in Dufferin county.

With regard to the legislation proposed, we have read the submission of OSEA and others and are in general agreement about the bill's favourable consideration of renewable energy and the way it positions it in the province's energy equation for the next step of its development.

On this subject, there have been many good discussions in this committee. However, there are two points we would like to make. First, we have no conflict with embedding the conservation bureau in the OPA, as we see these are linked in a community-based energy system. Secondly, we believe the discretionary powers of the minister's office are appropriate. Dealing with the energy issues in the context of the looming climate change crisis which will soon follow our energy supply problems will require strong political leadership and, we submit, community action. Business as usual is not going to get us there. We see the two solutions—renewable energy and conservation—working together on a community level. Of course, this is a long-term process, so we need to start with education.

**1600**

I'll describe a project underway in our community high school called the Shelburne Community Energy Pilot Project. This is a project in two parts. One is the installation of a renewable energy system at the school. It incorporates a four-phase project, beginning with a PV DC system which is going on the roof of the school as we speak, getting it ready for the students when they return. Actually, the students are involved in doing it, along with the teachers. Eventually, we hope to grid-connect that PV and test the market in terms of showing the community how a grid connection and a grid guide can be made. We expect the students will get a hearing for their case to do this.

The third point is to integrate a half-kilowatt PV wind turbine at the school. This will be located in the quad.

Then, in the future, maybe a few years out from now, we're going to look at more advanced energy conversion technologies.

At the same time, beginning in the new year but becoming evident in the summer, we have a program within the community led by the students taking the learning from their energy system and energy experience into the community to carry out energy audits and promote energy conservation measures within the community. That will include door-to-door audits.

PURE and the Upper Grand District School Board hope that this pilot can become a model for other rural and small communities throughout the board. It teaches our kids about energy, social responsibility and project management. In the longer term, the value proposition of community investment in sustainable energy systems will build. We view this as a societal change, not a market decision based on developing a sustainable energy culture. Just as we have for recycling, people will start thinking about the consequences of consumption.

Finally, we think there are ways that conservation and renewable energy can be combined to further the objectives of each—perhaps trading “negawatts” for renewable energy tariffs. This is something worth thinking about in the next steps.

On behalf of PURE, I would like to thank the committee again for the opportunity to present our views, and wish speedy passage of Bill 100 so that we can get on to the next steps in building our energy future.

**The Chair:** Thank you very much. With no representatives from the Progressive Conservatives or the NDP, we'll go to the government. Mr Ramal first and then Mr Craitor.

**Mr Ramal:** I would like to thank you on behalf of the people of Ontario. Actually, it's a wonderful approach, and I think this approach should be copied across the province. If every community in this province did the same, I guess we wouldn't have any problem with the hydro. Also, we'd achieve our conservation goal. Basically, I'm just here to thank you. Hopefully, wherever we go, I want to think of you as an example.

**Mr Fairlie:** Thank you very much.

**Mr Craitor:** Coming out of city council, and one of the new MPPs up here, I've always been a firm believer that governments can't do everything. I still remember when I first started on council and we were getting into this concept about recycling, the three Rs. I never forgot that. Even though we at the council level were saying, “Recycle, recycle,” nobody bought into it until we got the public involved, particularly the kids. I can still remember that. We went into the schools, convinced them—we didn't have to convince them; kids always believed in making the environment safe.

Now we're into energy. I'm still one of those believers, even though we have the bill, which I firmly believe in—it's only going to work in conservation if we can get the public and the kids and the educational system to buy into it.

The only point I was going to make—and I said this earlier—I'm listening to you and I'm thinking, back in

Niagara Falls we have a community centre that is going to open next year. It's a brand new development, bringing in a lot of the YW, the library and seniors—a whole group in there—but one of the things we're hoping we might accomplish is getting a turbine put in there to produce its own electricity to run the facility, and maybe any excess will then be put into the grid, but also to create an interpretive centre to educate the public on renewable resources and why that is the way to go. Just listening to your presentation, it's sort of déjà vu.

I think, for this to be successful, you've got to get the communities and the public to buy into it. We're going to put the legislation in place to do it, but the public has to buy into it.

I wish you success with your project and all the work you're doing. It's a great concept.

**Mr Fairlie:** I thank the committee for their very supportive remarks. I'll take them back to the teachers and students who are working on the roof of the Dufferin school. I think your support is very meaningful.

**The Chair:** We have Mrs Cansfield and then Ms Wynne.

**Mrs Cansfield:** I, too, would like to say thank you to you as a community for taking a lead that has been long in coming in terms of looking at the issue of renewable energies, and for not waiting for the legislation to be in place but taking the step forward.

I was in Guelph. Are you part of the whole process with Dr Suzuki?

**Mr Fairlie:** There was a meeting with the school board and Suzuki. In fact, I think they had him up in Guelph.

**Mrs Cansfield:** I was there.

**Mr Fairlie:** PURE was present. We had two of our members there. They had a table and they were talking about this project at the school and community action.

**Mrs Cansfield:** I think what you're doing is absolutely superb. What we need to be able to do is enable you, once you get that turbine up, to net-meter it into the grid. Then you can run your school, sell some energy and the kids can have some additional dollars to do with as they please. They do it in the United States, so we should be able to do it here. We're going to be able to put that in regulation that will enable you to do that. I encourage you to look at those regs to make sure we are providing that enabling part for you.

I would welcome, and I'm sure Ms Wynne and others would, an invitation to come and see this particular site. I'd be pleased. I go through Shelburne, not on a regular basis, but fairly often. We have a place up north. It's the opportunity to share with the rest of the province something that is very innovative and starting where we know it really makes a difference, and that's with education, with young people, because ultimately, they're the future. If we can get them thinking about a sustainable concept, then we know we are in good hands.

Again, thank you for this. If you've ever got any problems, you know who to call. The other is, please

issue us an invitation. We'd be delighted to come and have a visit.

**Mr Fairlie:** I'll ask the students and teachers to consider that, but I'm sure they'd be thrilled if you people came to the opening.

**Ms Wynne:** Just quickly—this is more a school trustee question than it is an MPP question. Some of the logistics of how you're doing this and how you got the kids involved: Are they doing a credit? How did you make this happen?

**Mr Fairlie:** It's outside the curriculum, but the board is supporting the concept, at least, that it could be made into a learning module.

**Ms Wynne:** Do they get some of their 40 hours?

**Mr Fairlie:** Actually, in the conservation part of it, in the preliminary part of that, we expect they'll get some of their 40 hours' work. But it's really an initiative that has been taken at the board level, and we have a very good group of teachers who are very excited about it, so they just want to make it happen.

**Ms Wynne:** Rightly so. Thank you very much.

**The Chair:** Thank you very much for your presentation today.

1610

#### PPG CANADA INC

**The Chair:** Next I'll ask PPG Canada Inc to come forward: Mark Shoemaker, the director of finance and human resources. Welcome, sir.

**Mr Mark Shoemaker:** Good afternoon, Mr Chairman and members of the committee. I have a much lower-tech presentation. It's all on paper.

My name is Mark Shoemaker. I am the director of finance and human resources for PPG Canada Inc. I would like to speak for about 10 minutes and leave some time for questions at the end. During this time I would like to accomplish two things: first, I would like to tell you who we are and what we do at PPG, and second, I would like to elaborate on a letter we wrote to Energy Minister Duncan on August 5 in which we expressed our preliminary view on Bill 100. I've given copies of this letter to the clerk to ensure you have your own copy.

First of all, who are we at PPG? To appreciate who PPG Canada Inc is, it is important to understand that we are part of a large multinational organization with plants and investments around the world. PPG Canada Inc is a wholly owned subsidiary of PPG Industries Inc, which is a global supplier of protective and decorative coatings, flat glass, fabricated glass products, continuous-strand fibreglass, and industrial and specialty chemicals.

Our parent corporation, PPG Industries Inc, was established in 1883 and is headquartered in Pittsburgh, Pennsylvania. It has 120 manufacturing facilities and equity affiliates, employing about 35,000 people worldwide, with combined annual sales in the range of US\$8.8 billion.

PPG Canada Inc, which I'll refer to as PPG, employs about 2,000 people in Canada at our five manufacturing

facilities and numerous sales, warehouse and distribution operations from Newfoundland to British Columbia. Our sales typically rank in the top 200 to 300 of the National Post 500 listing. We compete in a global economy and exports do represent a significant part of our sales. We ship our products from Canada to numerous markets, including the United States, Japan, Germany and China.

The majority of our investments are located here in Ontario, and we are a significant employer in the following communities: Hawkesbury, Oshawa, Mississauga and Owen Sound. Our Owen Sound, Oshawa and Hawkesbury plants produce automotive glass and windshields, and our Mississauga plant produces coatings for the highly competitive automotive sector.

Now that you know generally what we do, I would like to briefly describe our energy needs. PPG's Hawkesbury, Oshawa and Mississauga production facilities operate 24 hours a day, generally for five days but up to seven days a week. The PPG Owen Sound plant operates continuously 24 hours a day, 7 days a week, 365 days a year, and shuts down about every 10 to 12 years for a major furnace rebuild. Because we are now in the process of deciding whether to proceed with a major renovation at Owen Sound, I'll come back to this location shortly.

Together, PPG's Ontario plants consume in excess of 20 megawatts of electricity, all of which is bought through local distribution companies. PPG is not a direct wholesale electricity customer.

Due to the continuous nature of PPG's production, there is virtually no opportunity for electricity load shift or curtailment during peak periods without significant adverse impact on the company, and possibly on our automotive customers, owing to our just-in-time relationship with them. Moreover, because our processes in Ontario utilize little or no steam, cogeneration is not an economically viable alternative for us.

In the letter we wrote to Energy Minister Duncan earlier in August, PPG advised the government of Ontario that we believe two key legislative amendments are required. We believe that Bill 100 should be amended to specify (1) that the transitional large electricity consumers' rebate will remain in effect until April 30, 2006; and (2) that large or medium electricity consumers should not cross-subsidize smaller consumers.

To the first point, our parent company, PPG Industries Inc, has experienced the transition to competitive electricity markets in England and the United States, particularly in Pennsylvania and Texas. We therefore understand the importance of transitional measures, and we are concerned that Bill 100 is silent in this regard.

Under the market power mitigation agreement, the MPMA, the government of Ontario created a rebate for the first four years after May 1, 2002, running until April 30, 2006. In March of last year, the government of Ontario replaced this with the quarterly business protection plan rebate and again confirmed that this rebate would last until April 30, 2006.

We at PPG have relied on this rebate commitment and made investment decisions based on our understanding

that this transitional measure would remain in effect until April 30, 2006. As I mentioned earlier, we are now in the process of making a major investment decision that will affect the future of our Owen Sound plant. The cost of electricity is a critical factor in this decision, because energy is a major component of the cost of production. If we cannot source competitively priced energy in Ontario, our plant will not be able to compete in North American and global markets and its future clearly would be jeopardized. We are therefore concerned that the current version of Bill 100 makes no mention of the rebate. Although we understand that the rebate commitment was made by a former government, we believe that Bill 100 should honour it, because PPG and other manufacturers have relied on this commitment.

The bottom line here is that we have made business decisions in good faith on the understanding that the rebate would remain in force for the full four-year period. To help make sure that Ontario remains a reliable investment destination, we believe the legislation should confirm that the rebate will continue to the end of April 2006. We understand that many companies believe the new hybrid market price may make the rebate no longer necessary. We therefore, as a result, would see no reason why Bill 100 could not be amended so that PPG and other manufacturers would have the option of choosing either the rebate or the new hybrid price during the transition period, depending upon which was lower.

The second point we brought to the minister's attention is that large electricity consumers like PPG should not cross-subsidize other consumers. To ensure fairness and to maintain the ability of Ontario manufacturers to compete in North America and abroad, any costs associated with the small consumers' annual rate plan, including energy prices and other uplift charges, should not be borne by industrial users. It is therefore important that Bill 100 legislation specify that energy prices and charges must be transparent and cross-subsidization prohibited.

In closing, we note that many of the details regarding Ontario's new energy framework are not included in Bill 100 and will only become clear when regulations are passed. We believe that this regulation-making process must be transparent and subject to the same public scrutiny as the Bill 100 consultation process.

The stakes involved in Bill 100 are high because the future of Ontario's manufacturing base depends in part on competitive and reliable energy. I understand that the Canadian Manufacturers and Exporters appeared before your committee on August 12. At PPG, we actively take part with the CME and strongly support their objectives.

On behalf of PPG, I thank you for this opportunity to share our views on this very important legislation. I'm pleased to respond to any questions, if I can.

**1620**

**The Chair:** Thanks very much, Mr Shoemaker. Questions from the government side?

**Ms Wynne:** Just a quick question: You talked about cogeneration not being a possibility in your business. Are

there other technologies or other things that you've been able to explore to manage the cost? Is there anything out there that—

**Mr Shoemaker:** At this stage, I think we've explored every possible alternative outside of what we're currently doing. We believe the current energy mix is what we need to run our plants effectively.

**Ms Wynne:** OK. Have you been in conversation with the ministry? I know you've sent a letter to the minister, but have you been in conversation with the ministry about the direction of the regulations? How close have you been to that?

**Mr Shoemaker:** We haven't had face-to-face meetings yet.

**Ms Wynne:** I'm just wondering if maybe that would be a possibility. I'm sure the parliamentary assistant—she's nodding. I think if you're in touch with the ministry, with Mrs Cansfield's office, perhaps a meeting could be arranged. The willingness of the government is to be in dialogue with consumers who are having these issues.

**Mr Shoemaker:** Great. I appreciate that.

**Mrs Cansfield:** Thank you. I'd be delighted to facilitate a meeting. We have, I think, met somewhere around 550 to 600 stakeholders. Part of the issue is to be able to learn and understand what their concerns are.

A lot of the folks who have come into my office have talked about one of their concerns vis-à-vis manufacturing. I appreciate that you have your own internal folks who look at your energy needs and consumption. But, like most things, technologies change, and sometimes on a fairly regular basis. A lot of things have been sitting on the shelf because energy has been relatively inexpensive. There hasn't been such an extraordinary need to look at some of these technologies.

What they're saying to me is, they can't get past middle management. They knock on the door. They've got something they believe is specific to a particular industry. They believe that they can make that industry more efficient and effective in terms of its energy consumption, and they can't get past middle management. It's "Been there. Done that. Not interested. We've done it all. There's nothing new out there." Yet the technologies that are coming forward are working in those industries that have been a little bit more innovative in that approach.

I did speak to Ken Elsey and to the Canadian Manufacturers' Association about this issue. But I wondered, have you got any ideas as to how some of these entrepreneurial people could approach the manufacturing sector?

**Mr Shoemaker:** Certainly, in our case, the key is to approach the specific plant. In Ontario, we have four major plants. All are under tremendous cost pressures. If there's a viable, cost-effective solution that saves costs, that's the key person to get to. I don't want to sound trite. We don't have much middle management anymore; we're a pretty lean organization. Getting through to the manufacturing heads is the way into discourse and discussion.

**Mrs Cansfield:** Certainly, within the automotive sector and the few folks that I've talked to, they haven't been—and I don't mean in wholesale but in the retail end—quite as responsive. I've asked them about their lighting, in particular, which has to cost them a fortune, not suggesting that they turn it around overnight. But as they have to replace, have they looked at LED lights? They look at me as if I'm off the wall: "What is an LED light?"

So how do you encourage us to go out to that sector, to manufacturers of your ilk, and say that we believe there are places where you might re-audit, if you like, in terms of some of that newer technology?

**Mr Shoemaker:** I guess a key step would be to convince associations like the CME, who represent huge blocks of manufacturers, that there is a profitable avenue. With their support, that presumably would provide access to a wider base of companies.

**Mrs Cansfield:** Maybe what we need to do is bring you together and find a venue to give you an opportunity to look at some of these alternatives that are fairly new.

**Mr Shoemaker:** As I understand it, the CME is having another energy forum later this year, I believe in November. That could be an opportunity, for instance, because a large number of Ontario-based manufacturers will be there.

**Mrs Cansfield:** I'll follow through with that. I appreciate that. I won't comment on the letter, because it's to the minister, but I will facilitate the meeting. I will just have somebody get in touch with your office.

**Mr Shoemaker:** Great, and my wife says hello.

**Mrs Cansfield:** We say hello back.

**The Chair:** Mr Shoemaker, how big is your Owen Sound operation?

**Mr Shoemaker:** Owen Sound employs approximately 200 people. It generates revenues in the \$80-million to \$100-million-a-year range. It has a dual mandate. It supplies both automotive glass and float glass for further manufacture.

**The Chair:** It would be, I would take it, one of the larger manufacturers in Owen Sound?

**Mr Shoemaker:** Yes, no worse than number two. We're a heavy representation there.

**Mrs Cansfield:** I have one more question. If we're going to try to have a meeting, one of the things you might help us with is if you went back to your plant manager, for example, and asked him what his barriers are to more efficiency, maybe those are things that we can help with. If you could bring that to the meeting, I'd appreciate it.

**Mr Shoemaker:** I will be meeting with all of our plant managers in September, on the 22nd, and that's a perfect forum for me to get their input.

**Mrs Cansfield:** Great, and then we'll schedule that meeting for October.

**Mr Shoemaker:** OK. Very good.

**The Chair:** Thank you very much, Mr Shoemaker, for being with us today. We appreciate your input.

## RENÉ MOREAU

**The Chair:** Mr Moreau, please.

**Ms Wynne:** Just before Mr Moreau starts, I'd like to acknowledge that he's come early, at our request. Thank you very much.

**The Chair:** Yes, he has. Mr Moreau, thank you very much for being with us today. You can proceed with your presentation.

**Mr René Moreau:** I have a few notes after this, or a few points, but there aren't many. I'm going to read the letter because I think you all have copies of it.

"Re: The discussion on power for Ontario."

It's also the other subject—the other title could be, Protection from NAFTA in any Privatization Issue—in this case, hydro.

"Again and again, the issue of privatization of our electricity sources keeps coming up, and NAFTA keeps getting called 'unlikely to have any effect on Canadian privatization.'

"The issue first came up, that I know of, when councillors Brad Duguid, David Shiner, and three others were convinced by lobbyists that the privatization of Toronto's water system would be a good thing. Apparently, the city got the legal opinion of lawyer John Terry of Tory and Tory, in which he said that NAFTA was unlikely to have any effect on the turning over of water to corporate control. Later in the public's commentary against privatization, which went from 2:30 to 7:30 at city hall, Ann Emmet called his contribution 'weasel words,' which seemed quite apt at the time.

"Lately, on any privatization issue, be it the private-public partnerships or outright privatization, those who would fight to shed light on the NAFTA issue keep being told, 'Don't worry. Free trade and NAFTA are not important.' Again, it's in the form of lawyers' letters, as in the case of the Ontario Health Coalition," which you probably know fights the privatization of the health system.

"We've just had a full federal election where five political parties would not discuss any of the negative issues of NAFTA. The media and the businesspeople apparently have not commented on the fact, since they all, with few exceptions, have avoided the issue. It is surprising that the protection of our public entities from the rules of NAFTA, which stipulates that we cannot protect from or discriminate against foreign, American or Mexican corporations as they seek control of our resources, either goes undiscussed or is played down as the ranting of the leftist, wacko fringe, or the self-interest of the unions. Add to this that free trade discussions are done behind closed doors, are we not wise to consider the potential for problems now rather than later?"

1630

"We already have reason to be concerned when such corporations as Algonquin Power in Mississauga—but from New York—and Sythe corporation, also from New York, can come in and wait for so-called 'Canadians' in government to privatize those entities. This effectively

turns the power system over to the neighbours, because 'NAFTA says we must,' that the Ontario and Canadian public have paid into and built for years. Add to this the stipulation therein that if we impose rules that adversely affect their profits or potential profits, they can sue Canada and we, the taxpayers, get to foot the bill.

"Since the only way to protect ourselves from such a scenario is to abrogate or dump NAFTA"—and that is rather unlikely, considering what is at stake—"why not just not privatize or do any P3s? Leave it in public hands. In other words, speak out for Canada.

"After all, whenever the issue comes up, we have only to remember the phrase, which applies to all privatizations, 'Privatize the profits, socialize the debt!'"

They told us at the beginning that hydro was too big and it had to be broken up. At the time, the alternative was Southern Electric and Enron. Is this going for a smaller entity? Obviously, it turned out that it wouldn't have been a suitable alternative.

NAFTA almost ensures American input, as we've seen in the water issue, where American Water is running London, Ontario's, water, Azurix of Texas is running Hamilton-Wentworth's water and USFilter from the States is running Moncton, New Brunswick's, water.

We have another issue which may not have anything to do with the hydro issue, but as an example of what can happen, we currently have our census being operated, computer-wise, by Lockheed Martin of Texas. Currently they're talking about the firearms centre—it was put in the hands of EDS, also of Texas. They switched to another company because it was failing. It was not doing the job it was meant to. They put it in the hands of NCI and BDP. For the last month or maybe a bit longer, BDP has been part of Resolve, of Cleveland, Ohio.

I think it's time that we really consider our Canadian possibilities. I would like to think the people who are talking about NAFTA would consider that we may have to fight for this. Canada is worth fighting for.

**The Chair:** Thank you. There may be questions. Ms Wynne, please.

**Ms Wynne:** Actually, it's more of a question for the committee or maybe the parliamentary assistant. Mr Moreau, thank you for raising this issue. It has been raised before. We did ask for a legal opinion, and I'm just wondering what the status of that is. Do we know?

**Mrs Cansfield:** The request has gone through to the ministry and is in the ministry.

**Ms Wynne:** We have asked for a legal opinion on this issue of the relationship between what we're trying to do and NAFTA. I'm not a lawyer, so I'm not able to comment on it at this point. But when that legal opinion is available, it will be available publicly.

**Mr Moreau:** Could I get a copy of it sent to me?

**Ms Wynne:** Yes. I believe you're a constituent in Don Valley West?

**Mr Moreau:** Yes.

**Ms Wynne:** When that legal opinion is available publicly, you can get it through my office. I'll give you my card. OK?

**Mr Moreau:** OK. Because you can be fairly sure that it will be the same thing. We've had too many of them.

You heard from Paul Kahnert, who spoke for hydro, against the privatization. His group has been told, "Don't do NAFTA." In fact, there is an analogy to this keeping quiet on NAFTA. Do you remember the emperor's new clothes?

**Ms Wynne:** I do. He didn't have any.

**Mr Moreau:** You were obviously an idiot if you couldn't see his clothes. Well, obviously, we are the idiots if we speak out against NAFTA. It was said at the time of NAFTA, "Don't bring it up in public. The people will wake up, and they won't like it."

**Ms Wynne:** Well, I'll give you my card, and as soon as we get that legal opinion, we'll get a copy out to you, OK?

**Mr Moreau:** OK.

**Ms Wynne:** Thank you very much.

**The Chair:** Any more questions? Mr Moreau, I want to thank you very much for making your thoughtful presentation to us today.

I guess that concludes the committee's work this afternoon, and I'm looking forward to being in Ottawa tomorrow.

*The committee adjourned at 1635.*

*Continued from overleaf*

|                                      |        |
|--------------------------------------|--------|
| Canadian Auto Workers.....           | SP-202 |
| Mr Nick De Carlo                     |        |
| Mr Terry Howes; Mr Slava Golod ..... | SP-204 |
| Power Up Renewable Energy .....      | SP-206 |
| Mr Chris Kotwas                      |        |
| Mr Matthew Fairlie                   |        |
| PPG Canada Inc .....                 | SP-208 |
| Mr Mark Shoemaker                    |        |
| Mr René Moreau .....                 | SP-211 |

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# CONTENTS

Tuesday 24 August 2004

|  |               |
|--|---------------|
| <b>Electricity Restructuring Act, 2004, Bill 100, Mr Duncan / Loi de 2004<br/>sur la restructuration du secteur de l'électricité, projet de loi 100, M. Duncan .....</b> | <b>SP-153</b> |
| Mr Rick Coates .....   | SP-153        |
| TransCanada .....  | SP-155        |
| Mr Bill Taylor   |               |
| Constellation Energy .....   | SP-158        |
| Mr Rob Weir  |               |
| Ms Carrie Cullen-Hitt  |               |
| Canadian Environmental Law Association .....   | SP-161        |
| Ms Theresa McClenaghan   |               |
| Direct Energy .....  | SP-163        |
| Mr Paul Massara  |               |
| The Case for Public Power .....  | SP-166        |
| Mr Rod Anderson  |               |
| Mr Ron Bartholomew   |               |
| Mr Tom Campbell  |               |
| Energy Advantage Inc .....   | SP-168        |
| Mr Glen Ferguson   |               |
| Mr William Houston   |               |
| Ontario Society of Professional Engineers .....  | SP-171        |
| Mr Chris Cragg   |               |
| Ms Sharon Glover   |               |
| Bowater Canadian Forest Products Inc .....   | SP-173        |
| Mr Don Campbell  |               |
| Ontario Federation of Labour .....   | SP-175        |
| Mr Wayne Samuelson   |               |
| Mr Joseph Fierro .....   | SP-177        |
| Mr Frank Kehoe .....   | SP-180        |
| Osiris Energy Corp .....   | SP-182        |
| Mr John Kourtoff   |               |
| Mr André Mech  |               |
| Mattagami River Development Project Team .....   | SP-185        |
| Mr Paul Dottori  |               |
| Mr Ed Chilton  |               |
| Ms Patricia MacKay .....   | SP-187        |
| Public Protection Action Committee .....   | SP-188        |
| Mr Ian Hood  |               |
| Canadian Federation of Independent Business .....  | SP-191        |
| Ms Judith Andrew   |               |
| Mr Satinder Chera  |               |
| Mr Bill Wightman; Mr Scott Brown .....   | SP-193        |
| CUPE Ontario/CUPE Local 1 .....  | SP-196        |
| Mr Brian O'Keefe   |               |
| Mr Bruno Silano  |               |
| Falconbridge .....   | SP-198        |
| Mr Lauri Gregg   |               |
| Dr Derek Paul .....  | SP-200        |

*Continued overleaf*