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Jeudi 12 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
Clerk: Anne Stokes

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LEGISLATIVE ASSEMBLY OF ONTARIO

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

STANDING COMMITTEE ON SOCIAL POLICY

COMITÉ PERMANENT DE LA POLITIQUE SOCIALE

Thursday 12 August 2004

Jeudi 12 août 2004

The committee met at 0902 in room 151.

The Clerk of the Committee (Ms Anne Stokes): Good morning, everyone. I'd like to call this meeting to order. Welcome to the standing committee on social policy. In the absence of the Chair and the Vice-Chair, it's my duty to call upon you to elect an Acting Chair. Are there any nominations?

Ms Kathleen O. Wynne (Don Valley West): Yes, I'd like to nominate Mr Craitor.

The Clerk of the Committee: Are there any further nominations? There being no further nominations, Mr Craitor is elected Acting Chair, if you'd like to come forward.

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.

ONTARIO ENERGY ASSOCIATION

The Acting Chair (Mr Kim Craitor): Good morning, everyone, and welcome. We have a lengthy agenda today so we're going to get started immediately. The first presentation is by the Ontario Energy Association. Adam White, if you'd come forward and introduce everybody who is with you, please.

You have a half hour. You can use it for your entire presentation. Any unused time will be allowed for questions, to be asked by each member of the three parties.

Mr Bernard Jones: Thank you, Mr Chairman. I'm Bernard Jones, president and CEO of the Ontario Energy Association. With me are Adam White, who you just acknowledged, vice-president, public affairs and external relations, and Ron Clark, who is the OEA task force chair on Bill 100. Ron is also a partner with Fraser Milner Casgrain.

We appreciate the opportunity to speak to the committee about Bill 100. Obviously, secure energy supply for Ontario at reasonable cost is vitally important to our social stability and the competitiveness of the provincial economy. This committee's oversight of Bill 100 is very important.

We have a short presentation, after which we shall be pleased to answer any questions the committee may have. Let me first begin with a short introduction to the OEA. The OEA represents all sectors along the value-added chain in the Ontario natural gas and electricity sector. You may or may not know that gas and electricity account for approaching 60% of Ontario's energy supply, the balance being principally oil, and of course there are other, more minor sources as well. The industry serves the industrial, commercial, institutional and residential customers in our cities, towns, villages and many remote communities, so our members do in fact serve all areas of the province.

The OEA itself has about 140 member companies. It is an association with a high level of membership involvement in our many committees and also in our visioning and planning sessions. Just to give you an illustration, in the last visioning session with membership, we had over 65 member companies represented, looking at the future of the industry and trying to figure out which were the right and best paths for the industry to help the province achieve energy security at reasonable cost.

We also have a senior board of directors on which all sectors of our membership are represented, so we are truly a democratic organization. We are somewhat unique in that we represent such a broad spectrum of the industry in our membership, and we're very proud of what we do.

Turning now to the legislation, the OEA is pleased to say that we support the government's balanced approach to electricity policy. We are committed to helping ensure the success of the hybrid electricity system proposed in the bill. We also support an expanded role for the independent Ontario Energy Board, with the emphasis there on "independent," and a board that operates in a way that is transparent and accountable. The OEA also supports prices that reflect the true costs of electricity and that are stable and predictable for low-volume customers. So as you can see, we do support the bill.

That said, the OEA agrees with the government that private investment is essential to meet Ontario's needs for new generation and for energy demand management. While Bill 100 defines the regulated component of the

hybrid system, the hybrid will succeed only if the commercial component also succeeds. In that regard, it is vitally important that the wholesale market be sufficiently large to provide liquidity and support a competitive secondary contract market that allows investors to efficiently hedge commercial risks.

The government is facing growing demand for capital to invest in public sector infrastructure, including hospitals, schools, universities, highways and environmental projects. Also, operating costs in the public sector are escalating and are always a challenge. Fortunately, private sector risk capital will be available to finance energy sector investments, provided that the environment for investment is favourable. Taxpayers need not underwrite energy project risks in Ontario.

0910

Energy policy stability is critically important to securing investor confidence and Ontario's energy future. The OEA supports the establishment of an Ontario Power Authority in this regard to undertake long-term forecasting and integrated system planning.

It is important, we believe, that there should be clear criteria for, and limits to, the power authority's mandate that make it clear where and when the OPA will intervene and the scope that will be left to private investors to assume commercial risks. So we have to clearly understand the roles and responsibilities for the OPA and also for the private sector participants.

As well, the decision-making processes of the OEB, the OPA and the conservation bureau must be transparent and accountable, and must also consider stakeholder needs. So we do need clarity in the vision.

Within a hybrid system there should be regulation, of course, and we've noted the expanded role of the OEB. It should be regulation where warranted by the circumstances, but overregulation and micromanagement must be avoided. The OEB should implement light-handed regulation and forbear where private sector commerce is sufficient to meet the government's policy objectives.

Given its expanded role, mandate and resources, the OEB must strive to work smart, to streamline review and approval processes and to promote efficient outcomes. Regulation must ensure timely and certain cost recovery for the investments required by market participants to implement the government's policies. The advisory committee to the OEB should be established without delay in the legislation. Mr Chairman, we are encouraged by the progress being made to date by Mr Wetston and the board.

Clearly, Bill 100 is wide in scope and will affect virtually all parts of the electricity system. Therefore, we need to think about planning a smooth transition. For example, new rate structures, billing systems, smart metering and other major initiatives must be addressed in a coordinated manner and in consultation with stakeholders to ensure a smooth and informed transition for market participants and customers. Participants in the market must have the information to help make this new vision a success.

Successful transition will require effective customer communications to promote public awareness and engage customers in achieving the government's policy objectives. Customers must also be given the information and tools they need to effectively manage their electricity consumption. Part of that, of course, is that customers should be able to understand their bills.

In summary, the OEA is committed to working with the government to ensure the success of the hybrid electricity system. This system will succeed only if the commercial component also succeeds. The government must therefore create a favourable climate for attracting private sector investment.

Bill 100 and the subsequent regulations must provide policy stability to reduce risks and bolster investor confidence. Light-handed regulation by the OEB is a key to reducing risks and costs for the industry and for customers, and also for boosting economic efficiency.

A smooth transition that responds to stakeholder concerns and informs and engages customers and extends customer choice is key to ensuring the success of this new system.

Of course, we will be following up this presentation this morning with a written submission to the committee at a later date. Thank you, Mr Chairman. We'll now take questions.

The Acting Chair: Thank you. We have lots of time. We'll start with Mr O'Toole.

Mr John O'Toole (Durham): Thank you very much for your presentation. You raise a number of very good points.

My concern, really, from the emphasis you placed on the role of the OEB and the OPA—I'll pose a question that's been raised before. It's in section 29 of the bill, which deals with the issue of creditworthiness of the OPA. If you read the section, the OEB and the OPA will both impose what I consider to be new charges on the rate. We're already talking with some uncertainty about what the rates are going to be; in fact, the signal is that they're going to be higher—higher than 5.3 cents.

So there are really two parts to the question: What do you think of the current clarity in terms of its not being a crown corporation and really being appointed by the minister? In fact, it's empowered through cabinet decisions and financed by either the ratepayer or the taxpayer through the consolidated revenue fund. Is that an appropriate mechanism for this new authority to be at arm's length and autonomous?

Mr Jones: Ron, would you like to speak to that initially?

Mr Ron Clark: Sure. As I've read the section, I think there's an intent that certain expenses, obligations and charges of the OPA will be levied directly on consumers—well, the OPA certainly has the power to levy charges on consumers to meet its needs. There seems to be a difference in wording between the description of the needs and expenses of the OPA with regard to obligations to counter-parties versus its own administrative needs. Also, it's not quite clear in the bill whether

the OEB has oversight over one or both of those in terms of the OPA's ability to levy those charges and transfer them on to customer bills.

As I understand it, in any case, there is no immediate recourse to the coffers of the government for the OPA. The intention, I believe, and I've been told, is that those levies do appear directly on ratepayers' bills, as opposed to the budget of the province and ultimately the taxpayers. I think there could be some clarity added as to exactly what the OEB does approve and doesn't approve. I suspect we'll be hearing from potential contractual counter-parties with the OPA exactly what they would like to see in terms of what would help the credit rating of the OPA and how that relates to OEB approval processes.

Mr O'Toole: That's very good. It isn't really clear. You'd like to see more clarity on this issue, and I think most people would. I do think, though, that the consumer—my role as an elected person is to look at the consumer, residential and small business more specifically. The larger ones have their own ability to have mechanisms to offset risk.

The bill today is so confusing, and they are all quite upset and not very trusting of the debt retirement charge, the service charge, the line loss charge, all these little micro charges. And I only see more charges. The administration they've set up—and I'm not being critical here. There's a lack of certainty of how they get financed or underwritten, from either direct or indirect taxes. There's a huge amount of risk, because in the economic argument—part of your opening statement was how important this is to the economy of Ontario in all sectors, residential as well. Then there's the role of the energy board, which is going to look at prices passed on to the consumer. Some of this is going to be mandated through a cabinet minute or something which says whether the charge will be administration or operational, for the OPA and the Ontario Energy Board.

Do you have anything to add, as we make or recommend amendments to the bill, that would help to clarify it for the investment climate? That's what's really required here, some $30 billion to $40 billion, in the minister's view, that needs to be invested in the generation side to make the market more stable and secure. What clarity could we add to this? Is it the OPA and how it's financed? Does it become an independent, self-financing authority?

Mr Clark: I think there's an ambiguity currently. If the intention is that the OEB reviews levies on consumer bills that are levied by the OPA for the purposes of meeting its obligations to counter-parties, that has to be made clear. I'm not sure that would necessarily be a positive development. If a potential generator wants to invest and his counter-party's creditworthiness will be regulated or viewed or passed upon by a separate regulatory authority, that probably does create some discomfort. I know you'll be meeting with some investor groups and generators etc later on in your proceedings and I'm sure they'll have views on that as well. To the extent that the OPA is able to levy those rates and meet its needs without going through a regulatory process, that would probably make investors more comfortable.

0920

Mr Howard Hampton (Kenora-Rainy River): I really wanted to ask you this question. You refer to the "hybrid" model. If I remember, you and I especially have had some discussions on this issue. One of the criticisms that I think you've made in the past of a so-called regulated electricity system is that it gets in the way of the market, that the market should be allowed to make these decisions. Here we now have a system that on the one hand says it will be totally private investment, but on the other hand has created more bureaucratic organizations than I think we've ever seen before. Not only do you have the Ministry of Energy, but you have the Ontario Energy Board—a much-enlarged Ontario Energy Board, it looks like—an Ontario Power Authority, and what was the IMO continues to exist, only it takes on, shall we say, different clothing. So at one and the same time you have the additional costs of a private investment system—that is, members of your association will want to make a profit, and I would argue a 15% profit or more; they will have higher borrowing costs than government would have, simply because the risks will be higher—and yet at the same time, you have more bureaucratic organizations than ever before.

In some of the discussions you and I have had before, usually on open-line radio shows, I think you've indicated that would be the worst of all worlds.

Mr Jones: The question is being put to you. Maybe you should respond first, and then we can—

Mr Clark: I certainly don't think it's ever been characterized as the worst of all worlds. We have a particular situation where there is no doubt that government action was needed to kick-start investment, at least in the short and possibly the medium term. The OPA was something that was needed, and the OEA's position is that we support the establishment of the OPA and mechanisms that the government is taking to kick-start that investment. There's no question that was needed. There's a broad consensus among OEA members that that absolutely is the case.

Going forward, I think the bigger issue is whether the OPA continues to occupy a very, very large sector of the model of the system versus the OPA playing more of a standby role or a last-resort role. I think that's the question we have before us going forward. As we've indicated in our opening comments, we very much support strict limits on a definition of the OPA's role in the market because, for the hybrid model to succeed, the commercial element and sector must succeed. Otherwise, it's not a hybrid model; it's a regulated model.

Mr Jones: Can I add a comment as well? We have advised the government that we are concerned about excessive bureaucracy. It's very important that the OEB be effective but that it not be a huge organization that micromanages the energy sector, and that the OPA as well have a very clear mandate. Our vision is that we

would see the private investment become a growing part of the overall investment in the energy sector over time. But there's no question that there are issues to be addressed as we go forward. We're looking for clarity. Mr O'Toole asked questions about the clarity of the role of the OPA, its creditworthiness and so on.

But on the issue of taxes and profits, I think that really boils down more to ideology. Two simple examples: We did point out in your absence, Mr Hampton, that the government is facing great demands for capital for social infrastructure—schools, hospitals, highways and so on—and also that operating costs for government are a severe challenge. There is capital available in the private sector, and it simply makes sense for Ontario to grow a favourable climate for investors to bring that capital to the province. The fact that there is a profit component and a tax component to economic activities is just a feature of the society in which we live. There's virtually nothing in the room, I would think, and indeed in the building itself, that doesn't incorporate some profit motive in it. So I just don't buy the argument about taxes and profits being somehow bad in the electricity sector.

The Acting Chair: To the government side.

Mr Ted McMeekin (Ancaster-Dundas-Flamborough-Aldershot): I didn't take my "worst of all worlds" pill this morning, so I'm at a bit of disadvantage, I suppose.

As I listened to you speak, as one who represents a significant number of taxpayers in this great province, my perspective is that if my taxpayers were coming to me and saying, "Yes, you can borrow more economically than anybody else. Go out and borrow additional billions. I'll pay the tab for all the money that you need to borrow for the hospitals and the schools, and this and that"—but you know what? We don't live in that kind of a society. We live in a society that, on a good day, looks at sharing risk, sharing obligations, sharing responsibilities. I think the government's position is that we're trying to position ourselves that way, in reference to the so-called hybrid model.

In that context, you made comments, about the relationship between the OPA and other regulatory bodies, which I agree with. So I'd invite you to make any specific comments you might have about how we could sharpen that.

The other interest I have is in your summary statement. Maybe, in a contextual sense, it's part and parcel of the same question. You say, "The government must therefore create a favourable climate for attracting private sector investment." I'm assuming that favourable climate includes some genuine risk transfer from the public sector to the private sector, with some understanding that there would be some clear standards and transparencies, so at least people understand what's happening; in fact, a true partnership. I've often thought that the only P3s that ever work are really P4s, the fourth "P" being the people we represent.

Could you comment on those? I know that's kind of a softball question for you, but I'm really interested in how the government creates a more favourable climate responsibly, and around the relationship and what specifics you may have. Then, I understand, Ms Wynne has a question as well.

Mr Jones: Thank you. I'll ask Adam to address that.

Mr Adam White: Yes, thank you. I do appreciate the question. I think your comments about sharing risk, obligation and responsibility are perfectly consistent with our message to the committee and the government. It goes back to the question of Mr Hampton about profit and what justifies profit. What justifies profit is a relationship between risk and reward. We in the private sector are not asking that we be guaranteed a 15% return on equity. We're asking that we be given a reasonable opportunity to earn a fair return on our investment, but we're prepared to take risks. I think that's absolutely critical going forward.

In the old model, the Ontario Hydro model, all of the risk, really, was flowed through to ratepayers. One of the advantages of a market that introduces competition is that that risk can be more fairly allocated, so that investors can assume risk and have the tools to manage that risk. One of the other comments we've made about the effective functioning of the commercial part of the hybrid system is that it's absolutely key in Ontario that the competitive market, the wholesale market, be of sufficient size and scope so that a secondary-contract market does develop so that investors can hedge those risks. If they're able to hedge those risks efficiently in a contract market with many counterparts, many buyers and sellers in an active wholesale market, then we can get the risk management done properly and efficiently. That means we can accept a lower reward, because our risks will be lower. That's going to result in lower prices for everybody and, in particular, reduced risks for customers.

To the point about sharpening the relationships between the agencies, we have in our presentation made a number of comments about the need to provide clarity and the need to create policy stability. We understand that Bill 100 is enabling legislation, that it lays out a framework, that it authorizes the government to make regulations and issue directives and so on. We don't expect that Bill 100 is going to answer all of our questions.

We have communicated with the government about what we think our priorities—this really goes back to Minister Duncan's comments in the spring. He gave a speech at the Empire Club on April 15. He said in that speech that the government must send a clear, unambiguous message to the market to encourage private sector investment. So we're committed to working with the government to communicate what it is we want to hear to make that clear. I think there is some work to be done. We understand the government is working on that in the development of regulations.

0930

Mr McMeekin: And in your follow-up presentation you might offer us some additional clues to that?

Mr White: Yes. That's absolutely our intent. We have said from the beginning that we're committed to working

with the government to make sure this works, and that means doing what we can. It's useful for us to hear your comments and questions as well so we can take that back to our members and work on an appropriate response to that.

Mr McMeekin: One final observation: It's a little tough to pay a dividend on a $38-billion stranded debt.

The Acting Chair: We have less than a minute left.

Mrs Donna H. Cansfield (Etobicoke Centre): I just have a request, and then possibly Ms Wynne would like to ask her question. On page 6 you identified, "The OEA supports clear criteria for and limits ..." and where they should intervene, what scope etc. In your written submission, would you consider taking that requirement and placing it against the 10 identified priorities for the OPA and giving us your comments as to more clarity on those issues? That would be really helpful.

Mr Jones: We can.

The Acting Chair: We're out of time. I appreciate your presentation.

CALPINE CORP

The Acting Chair: Next we have with us Mr Greg Kelly from Calpine. Mr Kelly, you have 15 minutes. You can use it for your entire presentation. If not, the remaining time will be divided equally among the three parties to ask you any questions. Go ahead.

Mr Greg Kelly: Good morning. My name is Greg Kelly. I'm vice-president of sales and marketing for Calpine Corp. On behalf of Calpine, I'd like to thank the Chair for this opportunity to address you regarding Bill 100.

Let me first give you a very broad introduction to Calpine, and you'll find that on page 1 of the handout. Calpine is a leading North American power company. We were established in 1984. We're celebrating our 20th anniversary as an independent power producer.

We're dedicated to serving customers with clean, reliable, cost-competitive electricity. We currently supply about 25,000 megawatts of electricity from 91 operating plants in 21 US states, three Canadian provinces, including Whitby here in Ontario—we have a cogeneration facility there—as well as the United Kingdom.

We have a demonstrated track record of developing, building and operating natural gas-fired plants. We own and operate what we think is the cleanest fleet of electric-generating assets based on fossil fuels in North America. We are also the world's largest producer of renewable geothermal energy. We have a true commitment to renewables and the environment.

On page 2, I wanted to speak briefly to natural gas and natural gas-fired facilities. Let me describe the benefits to Ontario of a continued emphasis on this important generating source.

Natural gas-fired generation is an important part of a balanced and diversified portfolio of power generation for Ontario. Gas-fired plants are less expensive to construct and faster to permit than other options for baseload power plants and can meet the need in Ontario much more quickly. Combined-cycle technology like we employ uses about 40% less fuel than older gas technology plants and really reduces fuel costs and needs.

Importantly, gas-fired plants have a very small environmental footprint with substantially fewer air emissions, land use, solid waste and water needs compared to other fuel-based technologies. Natural gas generation is highly flexible and reliable and thus very complementary to other renewable programs that the province may consider, such as wind power.

Before moving on to comments on Bill 100, let me briefly address a much-debated topic. That is gas price volatility. I know that's something which has been discussed here recently.

Let me first address the availability of gas. I think it's important for the committee to understand that if I were to leave it with one thought today, it is that natural gas has been, is today, and will continue to be an abundant resource. I think the numbers speak for themselves. Only 40% of Canada's natural gas production is utilized domestically. Canada's natural gas reserves are estimated currently to be approximately 60,000 billion cubic feet, which is a tremendous energy reserve within the country.

In Ontario, pipeline capacity for natural gas transportation is also abundant. The current carrying capacity of Ontario's pipeline system is about two and a half times its current gas demand. So there's a tremendous capability for the province to expand its use of natural gas in its existing infrastructure.

So the only question then is price, and I know that's of concern. Calpine would like to submit that the current run-up in gas prices is really a natural occurrence when demand increases in what has become one of the world's most efficient commodity markets. There are a lot of buyers and sellers, and so pricing is very transparent.

So why has it run up? Obviously there is a tremendously greater demand now than there has been for supply. But I would submit that this is truly a signal, and a signal that's being heard by producers and other alternative supplies in bringing in new sources of gas that will help ultimately, we think, to dampen any volatility in the natural gas supply market. Those are sources such as LNG, and the Alaskan and Mackenzie sources of natural gas. And as prices rise to a level that sends a signal that it is efficient to produce those resources, we'll see them and feel their effects in the natural gas supply market.

It's not just Calpine and myself that feel that way; recently, experts at a Stanford University energy modelling symposium—there were some 45 industry experts who met last September—concluded that recent natural gas volatility does not foreshadow a pending long-term crisis in natural gas prices and that natural gas will remain very competitive with other fuel prices.

So as you deliberate the important topic of portfolio mix, I ask you not to throw away the baby with the bathwater. Please keep natural gas in mind as an important part of that portfolio because of its flexibility and its

ability to complement the other priorities the province has.

Let me turn then to comments on Bill 100 that we might have. Those comments start on page 3 in the handout.

I think it's clear that previous attempts to open the Ontario energy market to private investment have left doubts in the minds of some investors about the attractiveness of Ontario. We think Bill 100 is a good first step in what I would call redefining the electricity market to address important priorities such as resource adequacy, which I know has been one of the highest priorities, along with reliability. We look forward to working with the government in its deliberations on Bill 100 and the detailed regulations to be able to create a stable, investor-friendly electricity market for Ontario.

Moving to slide 4, we have six specific recommendations that we would like to tender.

The first is that we would like to see the bill foster a competitive market for generation. The bill as currently proposed is very broad in nature and does not include specific language regarding the benefits of competition.

Secondly, we'd like to ensure the integrity of the procurement process. Here we're focused on the OPA's role in procuring new supplies.

We would also like to see the OEB's objectives clarified. We think it's very important for those to be clear in terms of the mandates and work they are going to be undertaking moving forward.

Obviously we're very concerned about the creditworthiness of the OPA.

We would also like to provide for stakeholder input into the new IESO board. We feel this is very important with respect to the success of markets in the long run, to be able to have stakeholders' input felt at that level.

Finally, we're very interested in having more clarity around the definition of "alternative energy source."

As I walk through our specific comments in these areas, I've included in the write-up specific language for potential amendments to the bill, but I'm not going to read those today. We ask that they be incorporated into the record. We will only speak to the benefits of our proposal as I move through here.

0940

Moving to slide 5, I wanted to note under the recommendation of fostering a competitive market for generation that the statement of purposes for Bill 100 does not include any statement regarding attracting investment in new supply, fostering competition in the generation market, or the role of private sector involvement. We believe that adding these concepts to the purposes section would be an important signal to the market of the government's intentions to use competition as a tool to achieve its objectives. I can tell you that, as potential investors, we at Calpine see inclusion of these priorities and purposes as more than merely symbolic. When I personally have to convince my management that we should invest capital and human resources in helping Ontario solve its resource adequacy and environmental concerns, the inclusion of these concepts would send a very powerful and persuasive message to my board and our shareholders. A second reason for their inclusion is really for legal and judicial clarity. For instance, the act envisions that the OEB would carry out market mitigation efforts. Inclusion of these concepts in the object and purposes will give them direction and, importantly, background for justification of any future actions.

Moving on to slide 6—and I will take 6, 7 and 8 in their entirety; there's an awful lot of amendment language in there that we're offering—we note that the OPA is not required to contract and procure electricity under any priority or standards. We would submit that competitive, transparent and fair procurement standards are very important with respect to the integrity, moving forward, of procurement by the OPA. We think that guaranteeing the competitiveness and integrity of the procurement process would essentially ensure that Ontario gets the best solution for generation not only in terms of price but also in reliability and environmental impact. Again, this sends an important message to potential investors to enter the Ontario market, which I think is one of the end results that the government is seeking. We are always an advocate for open and competitive procurement because we feel it's just good public policy. Time and again, these processes have proven they will provide consumers the best solution in terms of price, reliability and impact on the environment, so we urge you to closely consider these proposed amendments.

I'm going to move to slide 9 and talk about clarifying the OEB's objectives. I really at this point just want to reiterate our request that the concept of competition be included in the object and purposes statement in schedule B of the OEB Act. We believe that inasmuch as the OEB will be, among other things, approving the OPA's procurement processes and acting as a market monitor, it's imperative that they be chartered with a competitive standard. How else could their actions in these areas I just mentioned be measured? So we really feel that yardstick is very important.

On slide 10 I'd like to address the creditworthiness of the OPA. We are a potential participant in the ongoing 2,500-megawatt RFP and are extremely conscious, therefore, of the need for the proposed OPA to be creditworthy. In general, we ask that the legislation be vetted by ratings agencies and that it enable the OPA to be rated investment grade. It is important that it also have access to working capital. Ensuring a fair balance between consumers and suppliers in the overall timing and payment chain is going to be an important function to keep long-term contracts cost-effective. It's like squeezing a balloon. If there's not a sharing of that working capital cost, you'll see it in the cost of supply. So it's a real cost and it's something that needs to be addressed in the legislation. We would hope the final legislation articulates that the OPA rates will recover all of the costs of the electric generating system.

On slide 11, just to briefly address again our desire for there to be an independent IESO board—and we

commend the legislation for that structure and support that. What we would like to do, though, is perhaps take it a step further in that what we've found in other markets is that it's very advantageous that there be direct stakeholder involvement at the board level, perhaps through a subcommittee to the board, rather than in working groups down the line. In that way, stakeholders can get to board members who are actually acting on actions that the IESO may take and understand the impact that will have on stakeholders on a day-to-day basis.

Our final recommendation, on slide 12, is really to put more clarity in the definition of "alternative energy source." The definition of "alternative energy source" is unclear. It's currently defined as energy that's "used to generate electricity through a process that is cleaner than certain other generation technologies in use in Ontario before June 1, 2004." I think you can see that it's very difficult, then, to gather what that level of clean is. So all parties will need clarification in this definition.

We were also concerned about another potential interpretation that showed up here, and that is the possibility of transmission and distribution companies developing, owning and controlling alternative energy resources under schedule B, section 71(2)(c). Our reading of the legislation as written is that, in fact, they could do so with the OEB's approval. We would ask that the committee clarify this point for us. We don't believe that was the ultimate intent. If it was, we are really concerned about what I would call discriminatory access by non-discriminatory transmitters and distributors. If we were to have to compete with them, that would be a very difficult situation.

In summary, we think Bill 100 is a very positive step toward a stable electricity market to attract investment. We would like to see better-defined roles of the OEB and IESO and confirmation of the role of the private sector in the new system.

The Acting Chair: Thank you very much for your presentation. You have used all your time. I appreciate your appearing before the committee.

ASSOCIATION OF MAJOR POWER CONSUMERS IN ONTARIO

The Acting Chair: The next presenter we have is from the Association of Major Power Consumers in Ontario, Mary Ellen Richardson, president.

Ms Mary Ellen Richardson: Good morning, ladies and gentlemen. Thank you for the opportunity to appear before this legislative committee hearing. We have a lot of information and many concerns to share with you but very limited time. Therefore, we have kept our remarks today to the barest minimum, and in the interests of your time, I will be reading my remarks. I do assure you that AMPCO will be submitting a detailed written submission to this process, including the detailed analyses that support the results we will share with you today.

In addition to speaking on behalf of AMPCO's approximately 55 member companies from a cross-section of manufacturers in the province, I am joined today by Gia De Julio of AMPCO, and also a panel of three AMPCO members: Mr Mike Kuriychuk from Bowater Canadian Forest Products Inc, representing the forestry sector; Mr Darren MacDonald from Gerdau Ameristeel, from the steel industry; and Mr George Blechta from Falconbridge Ltd, from the mining industry. My three panel colleagues will emphasize the concerns raised by Bill 100 as it pertains to their industry sector.

Today, in speaking about the Ontario government's proposed Bill 100, we would like to share with you the concerns, issues and messages that AMPCO has shared with many other parties: namely, what customers want and why this legislation is so important and so potentially worrisome. We were encouraged by Minister Duncan's remarks on Monday that energy policy will not be driven by ideology but rather by what works. We would hope that this means policy driven by what works for customers.

From my work with AMPCO as well as with a coalition of customer associations representing residential, commercial, small and large business customers, I have found that there is a remarkable consistency of what works for customers: namely, available, reliable and affordable electricity. We want to achieve this goal in ways that keep Ontario and its businesses competitive, to preserve an economy that throws off wealth and jobs while being environmentally responsible.

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AMPCO recognizes that Bill 100 is significant in the scope of changes contemplated, but sees it as enabling legislation providing an institutional framework and defining at a high level the roles, responsibilities and governance structures of major oversight institutions such as the Independent Electricity System Operator, Ontario Power Authority and OPG.

Bill 100 contemplates a number of initiatives that introduce direct involvement of government and its agencies in essentially commercial decision-making. AMPCO understands the need for a number of transitional measures that bring direct government involvement, such as the OPA, but always within a framework that has as its end state a viable electricity market and which keeps the cost to customers as low as possible.

AMPCO has ongoing concerns with the governance of these oversight institutions, noting that the requisite business skills and the knowledge of a very complex electricity system at a very crucial time will be critical to make this framework work. We hope that the government will consider input into the choice of strong board and advisory committee members and continuously audit their effectiveness and ability to influence balanced decisions.

As customers, we are interested in the price of the output. The end state, or results, are what matter. Some elements of upward price pressure clearly are beyond our control, including increasing fuel scarcity, international energy pricing and the need to replace aging infra-

structure. For these things, our supply portfolio can be used to minimize the risk to Ontario customers. There are other elements, significant elements, that are within our control; that is, they can be managed in a way, including the timing of implementation, that meets customer needs by mitigating price increases, making energy supply secure and Ontario industry competitive. I've listed them here, and we'll talk to those that are affected by public policy in a moment.

AMPCO has prepared an analysis of the cumulative effects of the various announced policy initiatives on the ultimate cost of power to customers and, through electricity prices, the impact on the Ontario economy. AMPCO has shared this analysis with various ministries of this government. Specifically, AMPCO's analysis, based on policy announcements relative to renewables, conservation targets, the introduction of the OPA, the MPMA phase-out and the replacement of coal-fired generation with natural gas, results in a dramatic 30% to 53% increase in the delivered price of electricity to customers, depending largely on the assumed price of natural gas and OPG's regulated price. Figure 1 illustrates the components of the price increase.

Further, AMPCO recently commissioned a study of the macroeconomic impacts of higher electricity prices on the Ontario economy. The magnitude of the economic impacts is significant in terms of the effect on the average economic growth rate and employment.

As noted earlier, there are several ways that this price impact can be mitigated. These include OPG costs control through effective oversight. In the short and medium terms, when the output provided by OPG remains a significant portion of our supply, it is imperative that this generation be priced to impose strict cost discipline on the company operations and not in a way that passes cost increases related to OPG inefficiencies through to customers.

Other ways to mitigate price impacts include decisions on fuel and technology mix, long-term capacity contract structures, and conservation programs and cost allocation. I might also note that the elimination of impediments to cogeneration such as the DRC would be helpful.

Given that Ontario is an industrial economy, energy strategy must include that reality and vision. Energy is an important cost factor to many of the AMPCO members. Historically, energy supply was a key competitive advantage in attracting industry and jobs to Ontario. Today that advantage has been lost. The delivered cost of electricity for industrial customers in Ontario has risen 30% since 2000, and Ontario now has electricity rates higher than most competing jurisdictions in North America. You will see this illustrated graphically on figure 2 in the presentation package.

I'd like now to turn the discussion over to my panel colleagues to talk about how this impacts their industry sectors.

Mr Mike Kuriychuk: Good morning. My name is Mike Kuriychuk. I'm vice-chair of AMPCO and I'm here to speak generally on forest sector issues. There will be presenters coming before this committee later to speak about specific companies. I would suggest that you ask them about specifics.

Forestry is a sustainable, renewable economic base in Ontario. There are 285 Ontario communities depending on the forest sector, and most are in northwestern and northeastern Ontario, which is generally an economically vulnerable region. In addition, many First Nation communities are closely related to the forest sector, and this First Nations' involvement has been growing over the years.

Direct employment in Ontario is over 85,000 people and indirect employment is about 175,000, according to statistics mentioned at the bottom of the page: annual sales, $14 billion; exports, $9 billion. Our contribution to the balance of trade in Ontario is second only to the automotive sector.

The forest product industry in general is not earning its cost of capital. A report by the Forest Products Association of Canada covering the period 1991 to 2001 showed that returns are below the cost of capital for all years in that period except one. That cannot be sustained. We are affected by global commodity price swings and we have little ability to control selling prices, so production cost control becomes a critical issue.

Electricity is a significant percentage of the cost of production, and depending on the technology it can be up to, and even greater than, 25% of product cost. In many cases it is the second cost component after the cost of fibre; it is highly significant. As Mary Ellen mentioned, in Ontario, prices have already escalated out of control.

A standard question: "Things are changing. Why can't industry just adjust?" A lot of that depends on our being a very capital-intensive sector. In the short term we have to operate with what is already installed. Most companies are already aggressively managing electricity cost through conservation projects, by shifting production to off-peak hours, using by-product fuels, doing self-generation and so forth. Now we're getting into a period of diminishing returns. All the easy opportunities have been taken. The ones remaining are more costly and the returns are lower.

In the longer term we're caught in a dilemma. To invest in plants and equipment you have to be profitable, but Ontario companies in the forest sector are not, so production is starting to simply disappear across the border. Those companies that have multi-plant operations throughout North America or the world are simply cutting back in Ontario and shifting production elsewhere. This is already happening. Therefore, we from the forest sector urge the provincial government to fully review the cost impacts of all policy decisions.

Mr Darren MacDonald: Good morning. I work for the Gerdau Ameristeel Corp. We operate 10 plants in North America, predominantly in the northeast of the continent. Two of those are in Ontario: Whitby and Cambridge. We have a combined load of about 120 megawatts.

We have a similar process at each of the 10 facilities and we have the ability to shift production from one

location to another. That's based on where it's economical to do so. We also operate in a globally competitive market, with very little control over any selling costs, so our production costs are critical.

We employ about 873 employees in Ontario. In 2003, we spent $498 million in contribution to the economy, and we've invested over $313 million in production facility improvements since 1990.

I wanted to draw your attention to the locations where we actually compete. Our facilities must compete internally for the right to produce, and we also have to compete globally. This graph indicates that our two mills in Ontario must also compete with mills that are right down on the southeastern seaboard, basically with the same distance to deliver product to the market.

This graph demonstrates by the red bars where Ontario currently sits relative to the rest of our operating facilities from a power cost perspective. Ontario is poised, with a 30% to 50% increase, to be the highest-cost operating location in our portfolio. It's important to note that the red bar reflects the MPMA, our TRO and our own economic command response. These costs are considered when we're looking at where to relocate or ship production.

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Efficiency gains: As you can see, we've made efficiency gains over the last number of years, and we've been able to get a 16% decrease in power consumption since 1999 to date. But that hasn't been enough to overcome the 30% increase we've seen in power prices. A 30% to 50% increase simply wouldn't allow us—the low-hanging fruit is gone; we picked it years ago. We're not going to be able to overcome that kind of increase.

Our message, really, is that price increase provides a clear signal to Gerdau Ameristeel to invest outside Ontario. It would reduce production expansion and capital expenditures, and we'd shift production of the high-energy cost products to lower-cost jurisdictions. So we urge the government to make policy decisions that drive efficiencies in this market. Thank you.

The Acting Chair: You have used up your 15 minutes, but I know there is one more speaker, and with the indulgence of the committee I'd like to allow him to speak.

Mr George Blechta: Thank you very much. My name is George Blechta. I'm with Falconbridge Ltd. Falconbridge is a worldwide company, primarily in nickel and copper. Falconbridge competes globally and has done so for the last 75 years. We have four plants in Ontario—two in Timmins and two in Sudbury—with 3,000 employees located in the north.

Falconbridge is one of the largest consumers of electricity in Ontario, with two terawatt hours per year. Our average yearly cost is approximately $120 million. This is a significant portion of our operating budget: 25% to 30% for smelters and 10% to 15% for mines. For every dollar increase in the price of electricity, our costs are increased by $2 million. This has a significant impact on our margins.

A competitive electricity market provided options, flexibility and opportunities to manage costs. A hybrid market will make this difficult. The metal market is a very cyclical feast and famine. With each dip we've had some form of shutdown. Back in 1982, we had a six-month shutdown with massive layoffs. With other metals it's the same story, but it's worse.

We invite the Minister of Energy and the legislative committee to visit one of our operating plants in Ontario in order to get a full appreciation of the potential impact. Thank you.

Ms Richardson: In closing, I'd just like to say that AMPCO would like to work with the government as the legislation is refined, and specifically as regulations are developed. It is clear from these presentations that electricity policy is critical to the economic viability of the province. We all face some significant energy challenges. The regulations we develop can create a crisis or prevent one. AMPCO wants to work together to find solutions. Thank you for listening.

SEA BREEZE POWER CORP

The Acting Chair: Our next presenter is Fred M. Strong, from Sea Breeze Power Corp. You have 15 minutes to make a presentation.

Mr Fred Strong: I'd like to thank the committee for the chance to comment on proposed Bill 100. I'm with Sea Breeze Power, a leading developer of utility-scale wind farms in BC. Sea Breeze is also active in remote power diesel replacement and load-levelling technologies. We're partnered with VRB Power, a Vancouver company that is commercializing vanadium redox flow batteries. These utility-scale batteries offer the prospect of high-quality load-management solutions that are both timely in an Ontario context and environmentally responsible. A Sea Breeze affiliate, Standard Hydrogen, has also begun to study the economics of the wind-hydrogen cycle here in Ontario.

Our work has identified transmission and interconnection issues as perhaps the major hurdle to diversifying power sources and strengthening our transmission grid, both stated goals of Bill 100. These dovetail with the conclusions of last year's task force report on distributed generation.

All forms of load levelling and distributed—sometimes called "embedded"—generation are highly sensitive to the costs of grid interconnection. These costs include regulatory approvals, hookups and wires, as well as ongoing compliance, power quality and other technical issues. The same is true for wind and other renewable energy sources, which have the added burden of their natural intermittency. Special attention must be paid to ensure system costs and benefits are properly accounted for, allocated and available to those responsible for creating the value in the first place.

Whether community owned or private, intermittent and small producers face significant economic and regulatory barriers when they try to access the electricity

grid, in addition to a raft of other legislation, public hearings and jurisdictions. I think property tax was mentioned in an Ontario wind context previously.

On the conservation side, the benefits of demand-side management—to use Amory Lovin's catchphrase, "negawatts"—are not confined to reducing power generation needs. The benefits for transmission systems and operators from reduced demand are substantial. In Ontario today, these benefits are brought into being by the actions of power consumers, whom we just heard from, but they accrue in large measure to the system operators. They're probably second only to electricity prices as a part of the conservation puzzle. System and other societal benefits were in fact an integral part of the success of, and a source of value-added that helped and continues to help pay for, California's successful conservation rebate program.

In Monday's testimony, most notably by the drafters of Bill 100, distributed generation—or more broadly, distributed power resource management—was identified as one of the desirable outcomes of electrical reform in Ontario. I have not, however, been able to find any reference to distributed generation by name or distributed power management in any section of the bill itself, including the bill's declared purpose as set out in section 1. The absence of a specific mandate in either of the bill's two main new operating sections, the new conservation bureau and the mandatory periodic power system reviews by the OPA, means distributed generation could find itself once again facing system operators that are, by definition, the only game in town, without an adequate or even a responsible party in government, apart from high-level oversight and potential recourse to the OEB. Historically, this is one reason why distributed generation, including cogeneration and combined heat and power, has been confined to our largest industrial power consumers, primarily steam users.

Power diversity has much in common with biodiversity. Diversity is the mark of a healthy system. If indeed a stronger, more resilient and secure power supply is to be promoted by Bill 100, I would ask this committee to consider placing explicit authority for distributed generation under the auspices of the conservation bureau. This small addition might fit comfortably after "electricity load management" in 29.1(b) and 71(1). Adding the words "distributed generation" or "distributed power management" to the purposes section in section 1 might also more clearly reflect the stated desires of the drafters.

A more forceful mandate would arise if these goals were specifically included as part of the proposed OPA's periodic integrated system plans and targets were actually set. For committee reference, this is section 25.28. I submit that the failure to make an explicit reference to distributed generation in the legislation risks once again orphaning an important and innovative market force.

The electrical system in North America is reaching a crisis point. Many people and policy-makers think that more generation will solve these issues. On the contrary, our work has led us to the conclusion that underlying electricity problems have more to do with transmission constraints and a regulatory environment that prevents the addition to and the upgrading of the hydro grid.

The stakes are high; 9/11 drove home the message that large plants represent large risks. Last August 14, nearly exactly a year ago, we found out how simple voltage instability can cascade through an entire grid, largely due to the age and layout of the system. Finally, the public resolutely resists improvements in grid capacity which must pass right through their backyards.

On the plus side, there is a new paradigm emerging, one that Detroit Edison has compared to the transformation we witnessed in the computer business. This new paradigm involves conservation, distributed generation and large-scale power storage. As with the World Wide Web, these are linked together with advanced information technologies and standardized rules and protocols.

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A recent Vermont study valued the system benefits of distributed generation at between US$1,000 and as high as US$7,000 per kilowatt—big numbers. Unlike California's complex analysis of societal and system benefits, Vermont's study was based exclusively on a void in investment in substations and wires. Distributed utility planning is now the centrepiece of Vermont's public services' conservation and load management program. All 22 of Vermont's district utilities are required by law to utilize distributed utility planning tools, which are well developed, in their least-cost integrated resource plans.

South of the border at the federal level, the Federal Energy Regulatory Commission recently enacted definitive new interconnect rules designed to level the playing field for new generation and streamline the process of getting new capacity on stream. The proper allocation of system benefits is prominently featured in FERC's regulation 2003-A. This allows new capacity to target grid constraint pockets and long lines without being forced to subsidize system operators. The FERC regulation is currently being recast for smaller facilities; that means under 20 megawatts.

Alongside the elimination of costs that clearly have nothing to do with the addition of new small-scale generating or peak shaving capacity—in particular, the aforementioned debt retirement charge—standardized interconnection rules and streamlined approvals processes are a prominent feature of presentations to this committee and its predecessors that involved distributed generation. Isn't it time to demystify electricity? Smaller projects simply cannot absorb the same kind of upfront charges or wield the same kind of clout as large projects.

This committee and the new institutions it's creating through Bill 100 have the opportunity to redress this historic imbalance. A case in point is EnerCan's proposed program to implement a workable carbon reduction plan in the electricity utility sector. They needed a program that would work. They paid attention to the concerns of smaller-scale renewable energy producers and addressed compliance using transactional analysis,

streamlining the application and approval process for carbon offsets for small energy producers. While this is an issue of efficiency, it would appear that the emerging distributed power paradigm requires that close attention be paid to the cost of permitting, as well as ongoing regulatory compliance. If Alberta's positive response to EnerCan's proposed plan to implement Kyoto is any indication, it may be wise for the new conservation bureau to pay some attention to this aspect of EnerCan's work.

Grid bottlenecks and brownouts are of course usually confined to daytime peak demand. Peak shaving—shifting load from the middle of the day and into underused portions of the grid—presents a much more level load profile that helps in many ways, including helping large-scale thermal and nuclear plants and stretched transmission lines to operate at peak efficiencies.

Along with other forms of distributed generation—Calpine mentioned some of them: microturbines, microgrids, small-scale wind and biomass—combining the relatively recent appearance of environmentally sound large-scale storage technologies such as the vanadium redox battery, which we represent, with increased use of decentralized distributed energy resources and embedded load levelling not only addresses legitimate questions regarding the intermittent nature of renewables; it moves us toward a far more secure and potentially sustainable energy future. This is perhaps nowhere more important than Ontario. Our main energy resources are based on information and industry as opposed to simple inflammability. Indeed, if Bill 100 can address these issues and facilitate the technological and capital investment to capture the benefits of this emerging paradigm, a westerner like myself might compare it to an eastern economic diversification program designed to deal with this core issue of energy supply. As with the western economic diversification program, it would help Ontario plan for the inevitable. In this context, it is most appropriate to examine these issues in the context of a social committee. I thank committee members for respecting their mandate in this respect.

Energy shortages, blackouts and wild price fluctuations threaten our very well-being, our jobs, our comforts and our way of life. As we have learned to our great cost, simple economics applied to large-scale decisions with long-term consequences, in particular least-cost to rate-base analysis, especially those chosen by government or sovereign authorities, may not fully account for future risks and costs. This is true even at the relatively straightforward level of plant construction and refit. These scandals have saddled our children with enormous stranded debts and burdened Canada's nuclear industry with economic and financial uncertainty that may in fact outweigh environmental concerns.

In contrast—and this is not to exclude large-scale plants that must meet strict safety, societal, environmental and hard-nosed economic and financial tests—the far larger subset of solutions related to distributed generation and load levelling reduces risk in any number of ways, and I ask the committee to make reference to last year's Task Force on Distributed Generation chaired by George Vegh. It also develops our economy in a manner that distributes benefits and jobs more evenly across the province. However, as we know, greater Toronto is our problem child.

I would like to close with a case history. In November 2003, PacifiCorp installed a three-megawatt VRB battery at the end of its Moab feeder in Utah, an 85-mile-long line with massive stability problems and finite capacity. The battery provides voltage support, which sometimes is called VAR, stabilizes current flow and adds incremental peak capacity sufficient to permit continued growth in the community without upgrading the transmission line. In this case, the line is owned by PacifiCorp itself.

In a city like Toronto, a series of well-placed 10-megawatt flow batteries would eliminate the need for costly standby diesel backup, a post-blackout tender that met with much public criticism. These diesel generators are not even allowed to run unless there is an emergency; they're just an additional insurance cost. In contrast, flow batteries are high-quality electrical assets that provide many benefits to the electrical grid. They also provide buffer capacity sufficient to perform many essential tasks and mitigate losses in the event of system failure or blackout.

In the longer term, load-levelling renewables and small-scale projects, in close conjunction with prudent demand-side management, will minimize the number of large-scale plants and large-scale choices Ontario will need to make to keep its energy future secure. As PacifiCorp's decision illustrates, such investments also minimize grid investment and even eliminate it in some cases.

We are on the verge of an industrial information revolution in the power business that is comparable in scale and scope to the original vision of Adam Beck. Ontario deserves more than incentives and regulations that just keep the lights on. We owe it to the future to keep the home fires of hope in industry burning every bit as brightly.

The Acting Chair: You've timed that quite appropriately. You've used your entire 15 minutes. On behalf of the committee, I thank you very much for appearing before us. We have no time for questions.

Mr Strong: We will be submitting a written brief by August 22.

The Acting Chair: We look forward to that.

ENERGY PROBE RESEARCH FOUNDATION

The Acting Chair: Our next presenter is the Energy Probe Research Foundation, Tom Adams.

Mr Tom Adams: Thank you very much, Mr Chairman. I will speak briefly in order to leave time for questions. I will restrict my comments to two subjects. One is Energy Probe's overall analysis of the approach taken

with Bill 100—the legislation itself rather than the surrounding policy issues—and secondly, I wish to address procedural concerns about the approach that's being taken to the public review of the legislation.

When Ontario's previous Tory government aborted its plans to open the province's electricity market to competition, dozens of private power plants that were on the drawing board vanished from existence, their owners writing down their investments to zero. Mr Harris's successor, Mr Eves, further jeopardized the province's ability to meet its needs by freezing power rates, encouraging excessive consumption and investing in nuclear power plants—proven non-performers.

Now, Mr McGuinty's government, panicked by the impending power shortages that Ontario faces due to these decisions of predecessor governments, is going one step further and creating a centralized power authority for the province. Bill 100 will create a new bureaucracy, the Ontario Power Authority, subject to the whims of the government of the day and empowered to develop and implement long-term power plants for the province. It will be able to issue debt and enter into long-term contracts, all backed by taxpayer credit.

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Energy Minister Dwight Duncan expects that the power authority will need in the order of $25 billion over the next 16 years but acknowledges that this figure could be as much as 50% higher. Given the sorry history of power authorities around the world, the $40-billion outer perimeter for his estimate may prove to be optimistic.

The Ontario Power Authority is little more than a formal rejuvenation of Ontario Hydro, which collapsed financially and operationally in 1997 under the weight of its nuclear and financial problems. The fates of other centralized power authorities around the world bear an uncanny similarity to the fate that befell Ontario Hydro.

In the UK in 1947, they established something called the Central Electricity Generating Board on the model of Ontario Hydro. Like Ontario Hydro, its preferences were coal and nuclear. By the middle of the 1980s, CEGB was heavily in debt, hounded by serious labour strife and unable to get permission to start the next round of mega-project expansions. In 1987, the Thatcher government lost confidence in CEGB's ability to meet the country's future electricity requirements and decided instead to competitively restructure the power system, including breaking up CEGB and privatizing some of the pieces.

Then the truth came out about CEGB's financial accounts. When CEGB was a government agency, its financial accounts were not subject to the same scrutiny that prevailed when it faced the prospect of issuing prospectuses in public markets. Once the utility needed to meet the disclosure requirements of securities laws, its financial officers faced the possibility of jail time for misleading investors. CEGB drastically revised its financial statements, revealing that its nuclear program was wildly loss-making rather than profitable as previously claimed.

France's version of Ontario Hydro, called Electricité de France, right now is in the early stages of the same process that killed CEGB. Again, the prospect of privatization is shining light on previously rosy financial accounts. The cash-strapped French government announced in 2002 its intention to sell a portion of its holdings in EDF. Last month, the Economist magazine reported the results of an analysis it had commissioned on Electricité de France's financial condition. Here's how the Economist summarized its findings:

"What emerges is a picture of group that used some questionable accounting practices; that has never really made a profit; that has made imprudent use of funds set aside for nuclear decommissioning and waste management; that lacks transparency over the level of its nuclear provisions; and that has indulged in a reckless and costly strategy of international expansion."

California's botched effort to bring competition to its electricity market failed in 2001, at which point the government of the day decided to switch to central planning. The result: The central planners entered into long-term power contracts with expected costs on the order of $40 billion over the lifetime of the contracts; the expected value, about half that.

The only jurisdictions in Canada where central power authorities have provided low-cost and reliable power are those jurisdictions blessed with abundant natural resources, easily harvested. Quebec, Manitoba and BC have abundant hydroelectric resources. Saskatchewan has practically limitless coal reserves easily available near the surface. In Ontario and New Brunswick, where making electricity is commercially complex owing to the lack of natural resources, central power authorities have accumulated vast debts, far beyond those that could be supported in a market environment.

Jurisdictions around the world that have embraced competition and have had the political capacity to ride out the inevitable bumps along the road have been very successful. Examples include the UK, most parts of the United States—particularly the neighbouring regions where they have a surplus of electricity now—New Zealand and Australia. These jurisdictions have attracted investors and benefited from improved service to customers and, in many instances, lower prices. The only losers in these instances were the existing systems and those that depended on the previous bureaucracies.

Some months ago, Energy Minister Dwight Duncan correctly observed that Ontario's power system has suffered from political instability in recent years. This government's comprehensive energy restructuring legislation is supposed to bring an end to this chaos. Unfortunately, by embracing the failed central planning model, Ontario's electricity chaos is, we fear, destined to continue. Power investments will continue to be dumped into a black hole, and the provincial power supply will be more unstable in future than ever.

Energy Probe's procedural concerns with this process of review for the government's restructuring legislation might best be described by contrasting the approach to

the review of energy restructuring that is going on now, versus the one that happened the last time we had a comprehensive electricity restructuring effort. As some of you may know, in the mid-1990s, Ontario Hydro internally initiated a process of review to develop the intellectual basis for a comprehensive restructuring of the electricity system. They initiated a process called the TAT process—technical advisory teams—of which Energy Probe became a member. Other customer groups also participated, and a discussion was initiated as to how a new electricity market might be designed. That process continued with the Macdonald committee report, initiated in 1995, and it extended into 1996.

In 1997, the previous government issued a white paper describing its intentions. That white paper was subject to comprehensive debate in public—very detailed, technical debate. A technical committee called the Ontario Market Design Committee was established to develop the legal infrastructure underneath that white paper.

The government's Bill 35, which was introduced in 1998, was itself subject to extensive review. Finally, when the bill was ultimately passed in October 1998, there was a very high degree of understanding—not necessarily agreement—of what the ultimate intentions were and what the choices were that had been made behind the scenes, as reflected in the legislation.

That process does not prevail now. The public does not have a clear understanding of where this energy legislation is going. These committee hearings are very short. They've been hastily assembled. Energy Probe's attendance at this meeting today was only confirmed yesterday. It resulted in a limited time for preparation. The restructuring of Ontario's power system is a very complex undertaking. This process is being undertaken in undue haste.

In conclusion, I have two summary comments. One is that Bill 100 will fail to provide a stable structure for Ontario's power system going forward, and the passage of Bill 100 will necessitate a further comprehensive electricity restructuring in the near future. The second comment is that the review process for this legislation is, sadly, inadequate.

That concludes my prepared remarks. I invite questions from the committee.

The Acting Chair: We have time for one question.

Mr O'Toole: Thank you very much, Mr Adams. You've been an observer and a commentator on this topic for a good decade, and I commend you for your review that you've given us this morning.

It is a very comprehensive piece, somewhat uncertain in terms of the overarching mandate of the OPA. It's really just the black hole that you've referred to: It's where they'll put the money. They're not sure how they'll price it, or they're not sure how they'll pay for it, except through consumers, either by a direct or indirect tax, as I understand it.

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When I look at this bill in a broad sense—because you've had a very tertiary view—it's a regulations bill. It's a framework bill that's going to be orchestrated through regulations.

Have you been privy to any of the discussions that I'm told by the minister in a letter that—I raised on his first day of hearings that I wanted to be part of or at least aware of the consultations on the myriad of regulations. Are you aware of any of the regulatory discussions with any stakeholders ongoing?

Mr Adams: No, I'm not aware of any.

Mr O'Toole: You're not aware, and you're Pollution Probe, right?

Mr Adams: Energy Probe.

Mr O'Toole: Do you know of any of your colleagues in the industry that are being consulted?

Mr Adams: I represent Energy Probe. I have not specifically asked any other participants or stakeholders in the electricity sector as to their participation, but I'm not aware of any who are participating in the preparation of new regulations. I, personally, am utterly in the dark as to what the intention is for future regulation.

Mr O'Toole: The industry today told us—the large consumers—that we could expect a 30% to 50% increase in the price of electrons. Is that going to have an impact on the economy that drives the rest of our standard of living?

Mr Adams: Electricity prices and overall public welfare are not directly related. All else equal, lower prices are a good thing. But Ontario has, for about a generation or perhaps longer, not paid the full cost of electricity. That's an unfortunate mistake that will take us perhaps more than a generation to pay off. At the current rate, we're not paying it off; we're actually accumulating additional debt. So I disagree with the analysis that's been presented by some political commentators, complaining that Bill 100 is flawed because it lacks the capacity to direct that customers get lower prices.

The Acting Chair: Thank you for appearing before the committee.

POWER WORKERS' UNION

The Acting Chair: Our next presenter is from the Power Workers' Union, Don MacKinnon—

Mr Peter Kelly: Brother Peter Kelly standing in for Don.

The Acting Chair: Brother Peter Kelly, yes. You're filling in, Peter?

Mr Kelly: Yes. Don's in Barrie with the Hydro One board of directors.

The Acting Chair: Welcome. Nice to see you, too. You know the routine; you have 15 minutes.

Mr Kelly: The Power Workers' Union has a number of key concerns arising from the provisions of Bill 100 and its anticipated restructuring of the electricity sector in Ontario.

(1) The PWU recognizes the important role that the new Ontario Power Authority (OPA) is intended to have in power system planning. The PWU is particularly pleased by the specific legislative recognition of the im-

portant role of integrated system planning, as prescribed by section 32 of the bill, in the development of a reliable, economically efficient and sustainable power system.

One key mechanism that is necessary to ensure the success of this proposal is that the OPA's process in the development of the integrated power system plan (IPSP) be a public one, with the opportunity for meaningful participation, particularly from key stakeholder groups. It is imperative that there be stakeholder participation in the process development of the IPSP, and not just an after-the-fact review.

Any plan ultimately produced by the OPA after its process must be made public in order to facilitate public scrutiny and comment. The government should confirm this publicly in the legislation in order to instill confidence in the process.

(2) A changed mandate for a regulatory agency can often lead to the burgeoning of an unnecessarily large bureaucracy. This must be avoided, particularly where the regulatory burden of such agencies will be paid for largely by Ontario's main heritage companies, Ontario Power Generation and Hydro One. The government has the ability to, and must ensure that, the OPA and OEB are kept to a reasonable size and level of cost.

(3) Another prerequisite to the success of the OPA's IPSP process is that the OPA be genuinely independent and be seen to be genuinely independent.

In addition to being independent, the OPA's process must be completely non-ideological, basing its deliberations on good science and sound economic analysis. As a result, the PWU believes that the OPA's process must be entirely unfettered by any preconditions on the options available to it, other than the best interests of the province. In particular, it is submitted that in order to be perceived to be credible and authoritative, the OPA's analysis must be unfettered with respect to generation type, generation provider, and preference for transmission, generation—including distributed generation—or demand management solutions.

Moreover, it is expected that any IPSP process undertaken by the OPA would include a consideration of local effects.

It is expected that any IPSP would be transparent in the sense that it would contain an analysis of the competing alternatives, with an assessment of the costs and benefits of each alternative, together with a justification for the recommended alternative.

The scheme established by the current version of the bill is not consistent with this important objective. Specifically, subsection 25.28(2) of the amended act would make the OPA's development of the IPSP subject to ministerial directives with respect to a variety of political policy objectives. This restriction is a significant restraint on both the independence and transparency of the IPSP.

The PWU recognizes the legitimate role that government policy choices may play in the ultimate composition and configuration of the power system in the province. However, these policy choices should be made openly and with the benefit of complete information provided by an IPSP developed without any ministerial or other preconditions or limitations. As a result, the PWU submits that the bill should be amended to provide that any ministerial directive shall be delivered only after the receipt of a completed IPSP. This amendment would assure both stakeholders and the public that decisions regarding the electricity system will result from reasoned analysis and not political interference.

Finally, while the OPA's mandate to create an IPSP is important, the mandate should not be exercised in an inefficient manner. The expertise that currently exists at Hydro One, for example, to engineer, design and construct transmission lines is such that the appropriate role for the OPA would be to make recommendations with respect to the need for a transmission line but leave the details of design, engineering and construction to the existing expertise of Hydro One. Any involvement in these areas by the OPA would be duplicative, inefficient and unnecessary. The PWU requests confirmation that the OPA, while being responsible for the broad issues of power mix, will not be involved in implementation issues currently carried out by Hydro One, which will remain the transmitter of power in Ontario.

(4) The government should seek to preserve and enhance the value of its assets, and thereby enhance the value of the property of the people of Ontario. Two of the largest of these assets are OPG and Hydro One, the prime inheritors of the assets of Ontario Hydro, which for so long drove the economy of this province.

The PWU recommends that the government use its authority to make regulations and shareholder agreements and that the minister use his power to issue directives so as to ensure that OPG and Hydro One can participate meaningfully, without interference, in the new electricity system in the province. For example, there is no need to inflict the possibility of having third-party market entrants taking pieces of Hydro One's transmission or distribution system or to cause that system to stagnate by taking new distribution opportunities away from Hydro One. Directives can and should be issued to the regulatory agencies to prevent this from happening.

(5) The bill must guarantee a smooth transition for affected employees.

One of the undeniable successes of the electricity market restructuring undertaken in 1998 was the smooth transition provided to affected employees, protecting their jobs and representation through a period of dramatic change and uncertainty. Having survived and thrived through this period of tumultuous change, these employees deserve to be reassured that an attack on their employment security is not an ulterior objective of this new round of market restructuring activity.

The bill in its present form contains only a modest recognition of this issue. Specifically, the provisions of XI.1 contain transitional provisions with respect to the transfer of functions from the IEMO to the OPA and the OEB. However, these provisions do not go far enough either in their scope or in the nature of the protections provided.

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Even if the terms and conditions of employment of these specific workers will not be affected, this does not recognize the circumstances of these unionized workers or other unionized workers affected by this restructuring. In particular, it does not recognize that a critical and hard-fought aspect of the terms and conditions of the employment for unionized workers is their collective agreement, including the recognition of their bargaining agent. These are cherished and important issues for the people who produce and transmit Ontario's power.

It is important to recall that all of the functions to be performed by all the various entities under the act, however they are ultimately restructured, were performed originally by Ontario Hydro. The 1998 restructuring was achieved by the then Conservative government without any erosion of bargaining rights. All entities that inherited any work from Ontario Hydro also inherited Ontario Hydro's collective agreements and bargaining rights. There is no reason that this restructuring cannot proceed with the same respect for bargaining rights. As a result, it is submitted that the following additional protections be embodied in the bill.

(a) All unionized workers affected by a transfer of function from the IEMO to either the OPA or the OEB will automatically continue to be represented by the same bargaining agent under a collective agreement providing the same terms and conditions as prior to the transfer.

(b) Although not explicitly mentioned in the bill, the objects of the OPA appear to suggest that it will be assuming certain functions formerly undertaken by Ontario Hydro and subsequently by various Ontario Hydro successor companies, including OPG and Hydro One. If this occurs, affected employees should be entitled to the same protections as described above. Specifically, those employees should continue to be represented by the same bargaining agent under collective agreement providing the same terms and conditions as prior to the transfer.

(c) The bill appears to contemplate the possibility of a decommissioning of some or all of OPG's coal-fired generation facilities prior to the end of their economic lives. In that event, this generation capacity would have to be displaced and replaced by an alternate capacity, presumably procured by the OPA. Such events would simply constitute a transfer of part of OPG's generation function to other generators. As a result, affected employees should be entitled to the same protections as described above. Specifically, those employees should continue to be represented by the same bargaining agent under a collective agreement providing the same terms and conditions as prior to the transfer.

(d) By the same token, it's apparent that any new generation procured by the OPA, as distinct from any new merchant generation, will essentially be fulfilling a function performed by OPG, and before it by Ontario Hydro. As a result, employees of those generators should be represented by the same bargaining agent, and affected employees should be entitled to the same protections as described above. Specifically, those employees should continue to be represented by the same bargaining agent under a collective agreement providing the same terms and conditions as OPG.

(6) The PWU acknowledges the government's legitimate objective in specifically advocating and facilitating the adoption of alternative energy sources in the bill. The PWU believes that clean coal technology is an exciting option for economically sustainable generation that is more environmentally benign than existing generation. It appears that clean coal technology would meet the definition of an "alternative energy source" in the bill. Similarly, there have been significant advancements in Candu technology that will make the nuclear option an even more environmentally sound generation source. The PWU welcomes the government's open-mindedness on the use of such technologies and urges it to promote both these technologies, as well as others, as the bill proceeds through the legislative process and it proceeds to write regulations.

(7) One notable deficiency of the bill is the failure to recognize electrical system safety as one of the statutory purposes enumerated in section 1 of the act. Specifically, proposed section 1(f) of the act should be amended to include "safety," together with "adequacy, reliability and quality of electricity service." This objective may be perceived to be so fundamental that it can go without explicit mention. However, the PWU submits that its importance cannot be overemphasized. This recognition is consistent with the important role of the Electrical Safety Authority, the existence of which is continued elsewhere in the act. It is also consistent with the need for the smooth transition for employees referred to above.

The PWU membership represents the only large base of expertise in the province with respect to the safe and efficient operation and maintenance of Ontario's complex electricity generation and transmission system. It is essential that the high standards of training and concern for public safety embodied in the PWU membership be maintained as new generation assets are added to the system. As a result, there should be explicit reference to safety embodied in section 1(f) of the act. Thank you, Mr Chairman.

The Acting Chair: Thank you, Peter. Well said.

We have time for two questions: one to Mr Prue and one to Kathleen Wynne.

Mr Michael Prue (Beaches-East York): My question will relate to what I perceive as a difficulty for your members should this government decide to privatize portions of the generation. Can you explain to me, because I'm having some difficulty understanding this, how the government would ensure that a new corporation—let's use Enron, because they're not likely to show up here.

Mr Kelly: I hope not.

Mr Prue: I hope not. Let's use them. Enron takes over and builds some big facility and hires staff. How does the government force Enron (a) to be unionized, (b) to choose your union, and (c) to choose your people and put

them in there? That's what I'm having difficulty with, and that's why I know you're upset about this. How would the government do that?

Mr Kelly: The government is able to give encouragement to employers and pass legislation. Various governments pass legislation to govern practically every aspect of my working life. So I'm assuming that the ability to pass legislation if persuasion wasn't sufficient would be within their purview.

Mr Prue: Just a small supplementary. So what you're asking them to do, should they decide to privatize, is to ensure that the rights of the workers who are presently with Hydro One and OPG are protected and that their jobs are protected if transferred to a private source?

Mr Kelly: Yes. For example, when now-defunct British Energy took over the Bruce Power assets in a lease arrangement, the existing employees and the collective agreement went with them. When Brascan purchased the hydroelectric stations on the Mississagi river system, the collective agreement and the employees went with that.

I understand that's a different question than you're asking. You're asking for new builds. When the Brighton Beach facility was constructed in Windsor, it was a joint partnership with Atco and OPG. We were able to persuade OPG and the new partner that we would negotiate a collective agreement with that group, which we've done. We represent people who work for TransAlta in Ontario. This has all been done through persuasion and employees voluntarily seeking to be organized by us.

If the government is going to go ahead in its plan, we believe they should take a step further than that, along the lines, as I said, of persuasion or legislation.

Ms Wynne: Certainly I take your point about the transition for employees—the bill doesn't deal with those human resource issues—and I take your point about safety and defer to your expertise.

I have a question about the point you make about subsection 25.28(2). You talk about the idea that there wouldn't be any ministerial directive until after a completed plan. As I read the legislation, the point is that the government would have the opportunity to set some goals in place. My question is, are you worried about goals or is it the phasing out of the coal plants that is the big concern? Because that's one of the goals that is set out in the legislation, which in fact is something the government is committed to.

Mr Kelly: It's a two-pronged concern. Obviously we're worried about a government forcing a supposedly arm's-length, stand-alone agency to follow a policy that agency doesn't believe in. Obviously we have concerns about the coal issue. However, in the future, our concerns are—obviously the government has the right to set policy. We're not for one minute suggesting that—

Ms Wynne: There's a philosophical framework that a government is going to operate in, and as I read this legislation, that's what those goals would reflect: cleaner air—

Mr Kelly: It would make a bit of a mockery of a supposedly independent system of evaluating what's best for the province, which we presume is the directive for the OPA, if in fact behind the scenes they were being directed and controlled by ministerial directive. We believe that should be—allow this agency that you're going to establish to make its best deliberations and whatever recommendation it so chooses, and then if it doesn't fit with your policy, correct it.

Ms Wynne: That seems to me like a backwards process. Let's know what the policy is up front—

Mr Kelly: It's a far more open process.

Ms Wynne: But let's know what the policy is up front. Let's know what the framework is, set the goals and then write the plan. Then you don't have to go back.

Mr Kelly: In our view, with all due respect, that makes a bit of a mockery of the process.

Ms Wynne: Well, I think we're going to have to agree to disagree on that, because what the bill does is set that parameter in place and make it clear what the philosophy is.

The Acting Chair: We appreciate your being here, Peter.

Interjection.

Mr Kelly: Sorry I can't answer. I'd like to respond, but Mr Craitor has cut me off. I'd be delighted to respond. Thanks.

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TORONTO ENVIRONMENTAL ALLIANCE

The Acting Chair: Our next presenter is from the Toronto Environmental Alliance, Keith Stewart. You have 15 minutes. Use it all. If there's any time left, we'll allow questions of you.

Mr Keith Stewart: Thank you very much for allowing me to address you today. My name is Keith Stewart. I work for a group called the Toronto Environmental Alliance. We're a non-profit environmental group based just down the street. We're also a member of the Low-Income Energy Network and the Ontario Electricity Coalition.

Personally, I had the pleasure of writing a Ph.D. dissertation on environmental policy in Ontario, which gave me an abiding interest in electricity policy in this province, and just finished co-writing a book with Jamie Swift on the decline and fall of Ontario's electric empire that will be published this fall, well before second reading of the legislation, so we'll try to make sure you all get a copy.

Interjection.

Mr Stewart: Oh, yes, for all of you.

Looking back provides some interesting lessons for the future. One of the things that I've been thinking about is, are we about to make the same mistakes of the past, or can we recapture some of the energy and initiative that drove the creation of our electricity system over 100 years ago as we re-create it in the coming decade?

As Ontario looks back to last year's blackout and looks forward to the future of the provincial electricity system, it's worth remembering that this is not the first

time an Ontario government has come to power promising to fix the electricity system and end Ontario's reliance on coal-fired power.

The year was 1905. Ontario had been relying on American coal and an unregulated market to deliver the novelty that was electricity. As a result, very few people had it.

The new Conservative Premier, James Whitney, had the people cheering and the big banks sputtering when he promised electricity "should not in the future be made the sport and prey of capitalists and shall not be treated as anything else but a valuable asset of the people of Ontario." He'd been driven to this very un-Tory-like rhetoric by one of his own new ministers, cigar box manufacturer, political renegade and long-time London mayor Adam Beck. Beck went on to achieve Ontario's first coal phaseout by launching a populist campaign for Power for the People that educated, exhorted and organized in the face of opposition from what he called the "big interests" at the time—the banks and the private power speculators—and even some within his own party. He sought to spread the benefits of "white coal," the province's abundant hydro power, to everyone.

Beck ensured that Ontario farmers got the benefits of affordable electricity well before their counterparts elsewhere in North America. We also got off coal, albeit temporarily. Along the way, Ontario built a powerful instrument of public policy. In turning aside the attempt to privatize the electricity grid in 2002, Justice Arthur Gans described Hydro, as it's still often known, as "one of the defining characteristics of the province."

Adam Beck was knighted for his efforts. His statue still scowls up at us from University Avenue and Queen Street, watching what we're doing here today. If he'd been kept abreast of what's been happening recently, he'd no doubt be spinning fast enough in his grave to generate a little electric power down there all by himself.

Ontario's public power system was eroded by a nuclear gigantism that plunged the old Hydro into debt and a turning away from the democratic impulse that gave it birth. Then came the more recent attempt to hand the electricity system back to the big interests that Beck so often decried. Privatization has been temporarily turned back in the face of public outrage and the collapse of some of the free-market energy swindlers like Enron, but it still lurks, waiting in the wings.

What I'm trying to come to is that today we stand at a watershed moment. Where we go depends on whether we take a public-spirited, thoughtful approach or continue with the nuclear gigantism and ecological arrogance that got us into our current fix.

The new electricity legislation that's before us today will reintroduce planning into the system, which I believe is a real plus, since the invisible hand of the market produced only chaos. But we should be asking what kind of planning we will have. Are we planning for the needs of the whole system or just the big power companies or industrial consumers?

Planning for the whole system would mean ensuring that everyone has access to sufficient, safe, reliable and affordable power generated by a new system that neither cooks the planet nor leaves our great-great-great-grandchildren a multi-billion dollar legacy of poisonous nuclear waste.

In the past, Ontario's power planning hierarchy was straightforward: First, you build as many really big power plants as possible; second, you launch sales campaigns to sell more power, because you've spent so much money building the plants; and, third, toward the end, maybe do a little bit of conservation on the side to keep us ecotypes quiet.

One hundred years after Beck, we need to invert this hierarchy and defend the interests of the most vulnerable. This will require addressing a number of gaps in the proposed legislation. The first priority must be to wean planners away from the big-is-better world of nuclear power and giant coal plants by establishing a planning hierarchy that will guide the Ontario Power Authority or, as I'd like to think of it, the Ontario conservation authority, with a new generation secretariat buried within it.

The first priority must be to maximize the contribution of efficiency and conservation. A recent study by the Pembina Institute, which you'll be hearing from later today, showed that Ontario can cut power consumption by 40% by 2020, and do so affordably. According to the economists out on the west coast that they hired to do the study, an $18-billion investment in energy conservation and efficiency does the same job as a $32-billion investment in nuclear power. You don't have to pay for fuel or retubing, while the consumers make 96% of the efficiency investment back through lower bills.

The second priority must be to maximize the contribution of renewable power from run-of-the-river hydro, wind, solar and geothermal sources. I found it instructive that the recent request for proposals for 300 megawatts of green power resulted in offers to build 4,400 megawatts, suggesting that there is a huge potential. If you follow the money, however, the $500 million that John Manley told us it would cost to restart another unit at the Bruce has now become $900 million when it was approved recently.

To truly tap renewable energy, we need to get the public involved through European-style renewable tariffs, which you heard about yesterday from the Ontario Sustainable Energy Association. If we ramp up the contributions of conservation and green power, we may still need additional power during the transition. Then we should meet the remaining demand through least-cost—and this means including environmental and health costs—non-renewable sources such as natural gas which are used as efficiently as possible. If we're going to burn natural gas for heat, we might as well generate power at the same time.

A second gap in the legislation relates to the stated purposes of the act. To protect today's smog-scarred lungs and future generations from both climate change and nuclear waste, we should include the protection of public health and the environment as one of the purposes of the legislation. This purpose must in turn be integrated

into the mandates and activities of all of the agencies created to run the system, including the Ontario Energy Board.

Third, we must ensure universal access to adequate energy as a basic necessity, while minimizing the impacts on health and on the local and global environment of meeting the essential energy and conservation needs of all Ontarians. Too many families in this province are having to choose between eating and heating, yet traditional conservation programs almost never touch low-income consumers and we have no long-term plan to ensure that poor people have access to this basic necessity.

I've brought with me, and I can make available to your research person, a study on low-income energy conservation assistance that TEA submitted recently to the Ministry of Energy and the types of programs that will help achieve that.

Low-income consumers, especially tenants, must have access to both the conservation programs that will sustainably reduce their bills and measures which ensure them an adequate supply. This should not be an option. It must be a provincially mandated requirement for all of our electrical utilities and related agencies and be integrated with the changes to the legislation governing both tenant protection and social assistance. You'll hear more on this later today from the Advocacy Centre for Tenants Ontario and in the future from the Low-Income Energy Network.

Fourth, we should take advantage of the opportunities with the rebuilding we're going to have to do to create new green jobs in the province by making long-term commitments to both conservation and renewables. But we must also develop "just transition" programs for workers affected by changes in the electricity system, such as the closure of the coal plants and the phase-out of our nuclear plants, so that the workers don't bear a disproportionate share of the costs of these changes.

Finally, we must ensure that the rules we develop to promote conservation and green power are NAFTA-proof by keeping the system under public control. We don't want the big transnational energy companies using chapter 11 of NAFTA to sue Ontario for lost profits due to energy conservation programs. If you spend $18 billion to reduce demand by the equivalent of $5 billion per year, you can bet those companies will be using every tool at their disposal if you've allowed them in the door.

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You heard from John Wilson yesterday on this point, and I look forward to the government's response to the questions he put to you on legal opinions you have regarding the impacts. I would also refer you to the report prepared by Steven Shrybman on this point.

Thank you very much for your time. I'd be happy to answer any questions you may have.

The Acting Chair: Thank you very much, Mr Stewart. We have time probably for two questions, if they're direct.

Mr O'Toole: I thank you very much for your presentation. If I look at schedule A, which is basically the purpose of the act—the 10 points there—there's one section, clause 1(d), that says, "to promote the use of cleaner energy sources and technologies, including alternative energy sources...." Then you go into section 2 and it talks about alternative energy sources, which will be described in regulation. If you go on to subsection (10) of that section, it goes on further and would really potentially allow for nuclear being defined as renewable, as well as coal, technically, if it's a newer technology—selected catalytic converters etc. Could you comment on that? Is this going to satisfy you or is it too loose?

Mr Stewart: Obviously, how the regulations are written is very important, particularly on these points.

Mr O'Toole: You're being consulted on the regulations?

Mr Stewart: We hope we will be consulted on the regulations. At the moment, we've just had fairly informal discussions on general directions with people from the ministry and the government.

In terms of the definition of green power, there is the federal government EcoLogo definition, which still needs some tweaking but is on the right track. There's no way in hell that nuclear power would make in through. Anyone who would like to think that is welcome to take a swim in one of the high-level waste containment pools. I was in the Bruce Power station last summer, and when I came out, I couldn't make it past the radiation detector. So we went out a different way to go past one that wasn't quite as sensitive.

I would also say that clean coal would not make it through such a screen, and neither would large-scale hydro. With hydro, it's very much dependent on site. It's hard to set very general parameters, because it depends on local ecological conditions. But many small-scale hydro dams or run-of-the-river hydro would qualify.

There have been extensive discussions between environmentalists and industry in developing the EcoLogo definition, and we think that should be the starting point.

The Acting Chair: Thank you very much. We are out of time. I apologize, Michael.

Interjection.

The Acting Chair: Yes, we'd like the report. A copy will be provided to every member.

ROBERT STASKO

The Acting Chair: The next presenter is from Science Concepts International. You've got 15 minutes.

Mr Robert Stasko: Thank you, Mr Chair. Good morning. My name is Robert Stasko, and I'm pleased to address this group on the proposed legislation, Bill 100. I'm not here representing any official organization today. However, I am representing a constituency within the energy sector. I'd like to speak on behalf of those agencies and individuals who are committed to the development and application of the next generation of improved energy technologies for the people of Ontario.

I've been in the electricity sector for over 30 years, both here in Canada and abroad. I have a wide experience

in everything from nuclear operations at Pickering to development of advanced solar energy technologies for Ontario Power Technologies. I've also been seconded to the Ontario Ministry of Energy on two separate occasions as a senior policy adviser, and as it happens, I've served under governments from all three political parties represented here on the committee. However, most of my career has been spent on the development and commercialization of new energy technologies in the electricity sector. I'm an unrepentant techno-geek and have been involved in everything from hot fusion to electricity generated from cow manure.

From my perspective, Bill 100 is a major step in the right direction as part of a broad government recognition of the importance of electricity. However, as is often the case, the major themes of new supply, regulation versus private sector, electricity cost, energy mix and overall governance issues have pushed the issue of promising new technologies into the shadows. As a result, I'm concerned that a major opportunity to correct a serious problem may be missed.

If I can just direct you to the handout, there's a schematic on the lower half of the cover page that basically shows what the emerging energy network is likely to look like in the next decade. While much of the conventional grid will still be in place—that is, central generation, high-voltage transmission and local distribution to end users—many so-called distributed generation facilities will also be in place.

What is distributed generation? It is smaller, often modularized facilities, usually under 10 megawatts, and likely one day to be pervasive and as low as five kilowatts. DG power is usually generated very close to where it's consumed, thereby minimizing the need for wires, grid and other secondary sources of power. Users of DG technology can achieve some significant degree of energy independence. Fuels can be anything from conventional natural gas to renewables like wind and solar.

I have what I would not consider an exhaustive list of distributed generation technology, and I'll just quickly go through it: fuel cells, micro-turbines, wind turbines, Stirling engines, advanced gas turbines, mini-hydro and run-of-the-river hydro, photovoltaic or solar power, biomass conversion, hydrogen infrastructure and on-site energy storage. Please note that some of these technologies, such as wind, are no longer in the early development phase but are essentially commercial, for all intents and purposes. Others are only beginning to be deployed and typically only in niche applications. In addition, while wind technology is now proven, hybrid systems, such as wind-hydrogen, where off-peak power is used to store hydrogen for on-peak usage, is still in its infancy.

What are the benefits of distributed generation? Recent technological advancements mean that DG is often as efficient, if not more efficient, than large capital-intensive central generation—often higher than 80% when you look at combined heat and power applications. Because of this, you make better utilization of electricity transmission and distribution assets. Often there are better or no emission profiles when compared to conventional or incumbent technologies. Basically, we're moving toward a more sustainable set of technologies. We can make use of renewable energies such as landfill gas, waste water treatment gas and biofuels. One last thing, of course, is that this creates a more ideal electricity market, because you have many sellers rather than a handful of large sellers.

I just want to mention briefly that there are some technologies that we also consider to be developing technologies on the conservation side: things like high-efficiency lighting, metal halides and advanced non-compressor chilling systems. I'm going to cluster these with technologies that need demonstrating and need to be developed as part of a broader DG strategy.

System benefits don't always flow to the user when they use these new, emerging technologies. In fact, they take all the technology risk, whereas the system benefits can often be significant and they don't capture them: deferred local distribution, capital investment, system stability, peak shaving, market functionalities. There are also significant social and environmental benefits to distributed generation, again not captured by the early adopter. So the early adopter very often takes all the technology risk, and it's a lot of early risk.

There are other barriers to the deployment of DG technologies, such as connection codes and standards; net metering issues with the local distribution utility, because they're going to lose revenue; and uncertainty about the future pricing of fuels and electricity. But the biggest risk for an early adopter is always that technology risk: Will the product be reliable and maintainable?

What does this have to do with Bill 100? Right now when I look at Bill 100, I see minimal specificity about distributed generation and how it can contribute as part of a broader conservation, efficiency and peak-shifting clipping strategy. There is absolutely no mention of the key role of R&D in bringing the next generation of energy technology forward. By that, I don't mean bench-top R&D but basically the demonstration pilot plant kind of thing that gives people comfort with a new technology, so that more people will be comfortable with it.

Also, there is no object in the Ontario Power Authority designation that clearly designates this as part of the mandate, and I want to touch on that a little later. I would feel that the OPA is actually the most appropriate agency in the new electricity firmament to take on the role I'm proposing here. If it does not, I don't see that any other entity will.

1110

What have other jurisdictions done along those lines? I'll just list a few.

NYSERDA, the New York State Energy Research and Development Authority has a budget of hundreds of millions of dollars, has thousands of demonstration projects—funded partly through a system-benefit charge, partly through industrial contributions and partly through a number of sources—and is very effective in bringing

conservation, energy efficiency and distributed generation technologies to the fore.

The California Energy Commission; the University of California Energy Institute; IREQ in Quebec, which has a $100-million budget; AERI, in Alberta, which does a great deal of energy research and pilot demonstrations, albeit mostly petro-fuel research —I could go on, but I won't.

I'll talk a little bit about our past programs in Ontario.

Ontario Hydro, at one time, had 1% of its gross revenue dedicated to R&D; that's about $80 million. Half of that, mind you, was for nuclear things, but the other $40 million was basically for the kinds of things we're talking about: DG and energy efficiency products. The Ministry of Energy also had a budget of about $10 million to $20 million for such R&D projects. These funds were used to lever significant amounts of federal and municipal dollars, and also from the private sector.

Our present situation is not good. As of now, Ontario Hydro Technologies was sold to an offshore private company, along with about 75% of Ontario Hydro technology-related intellectual property.

The two successor companies, OPG and Hydro One, have a combined budget of about $3 million to $5 million—that's it—for this kind of activity, for non-nuclear R&D. That could easily shrink as part of the new restructuring. Of course, I don't know the exact figure, because it's not public knowledge. The Ministry of Energy, as it is right now, has no R&D dollars and no program funds. It's basically a policy shop.

What are the consequences of inaction?

The pace of deployment for newer, more environmentally progressive, efficient technologies will be limited. They won't contribute as much as they could to the new energy market place. The opportunity to ensure a much larger contribution from distributed generation will be missed and the economic benefits of developing a new "sunrise" energy technology sector in Ontario will never be realized.

What should Bill 100 have to include?

I would submit that a clear designation, responsibility and mandate for the Ontario Power Authority to support pre-commercial energy R&D via co-funding of pilot projects should be in the mandate.

Ensure that early adopters of emerging energy technology can mitigate investment risk through various policy and program instruments defined by the OPA.

The OPA will partner with other government agencies, NGOs and private industry to showcase new applications of DG technology.

Finally, appoint an R&D advisory committee to address the specific needs of the energy sector.

It's entirely possible that the OPA will have identified these needs and embark on a process of technology development activities. However, it may not. This should not be left to chance. Just as the government has specified a conservation directorate within the OPA, so should it designate a role for R&D demonstration projects and the emerging role of distributed energy solutions.

The Acting Chair: Thank you very much, Robert. We do have time for some questions, and I'll start with Mr Prue.

Mr Prue: We all recognize the need for research and development in many phases of a modern, technological society. But can you tell me, if New York state is spending $100 million and all other states and provinces are spending the money, would it not—I'm just being devil's advocate—pay this province to just borrow the technology? It can't be that much different than what exists in Ontario. Let them develop it; let us buy it. How are we to save money if we're to do it ourselves?

Mr Stasko: That's certainly one approach. You're right; one could argue that there's a continuum from an extreme of basically funding everybody else's R&D to harvesting it. I would suggest the middle road, a middle ground between those two extremes. Well, we're not they're now. If we've gone from about $100 million of co-funding—and I stress co-funding—for this kind of activity, and we're down to about $3 million to $5 million—and that's at risk—I would say we're at the far end of the spectrum.

Earlier I mentioned the economic benefits. If we can advance distributed generation technologies more rapidly here in Ontario, not only does it contribute to our energy mix, which we all benefit from locally, but we have an economic opportunity of, as I mentioned, starting a whole new industry here, or actually taking an industry that's already here and keeping it here.

The Acting Chair: One last question, Mrs Cansfield.

Mrs Cansfield: I have a question around the R&D. I concur, obviously, that you need research and development to move forward. But currently, with the $225 million that was allocated under Bill 4 to the local distribution companies on the demand side, a number of those initiatives that are going forward are pilots on research and development. Would you be suggesting that all those local distribution companies must go to the OEB for approval of whatever they're proposing for the demand side, that part of the requirement that OEB should be considering is a research and development component toward that $225 million for the demand side? Would you think that might be one option?

The other question is, are you suggesting that that R&D component fall under the OPA or the conservation bureau?

Mr Stasko: Excellent questions; I guess there are at least two parts there. To the first part, I'd never considered the OEB as a mechanism, although it certainly has merit. I thought that that $225 million might be allocated to R&D activities or pilot project activities. What I kind of saw, though, is that they would be more driven toward what I would look at as system benefit opportunities. I still think the OPA has a central role to co-fund such projects, and if they co-funded with the local municipal distribution utilities, more of these projects would roll forward.

As to your other question—I'm sorry; maybe you could repeat it.

Mrs Cansfield: Currently, economic trade and development have been allocated a certain amount of money toward R&D. Are you suggesting that it should fall under the OPA or the conservation bureau once Bill 100 is enacted, as opposed to economic trade and development?

Mr Stasko: I'm afraid to comment on that because I don't want to take away anything from the MITT. I should mention that I'm aware that MITT is moving forward with some of these types of technology development programs. For instance, fuel cells: I'm aware of what they're doing on fuel cells and it's very laudable, but it's aimed at the auto sector for the most part. So they're not looking at the energy sector other than, I guess, collaterally.

Mrs Cansfield: So maybe the other is an integrated thought process when R&D occurs, that it is a cross-sector kind of thinking.

The last question: A lot has been said about the issue around the regulations, which the minister has indicated would be made public in draft form. But I think between us we've met with somewhere between 500 and 600 people, and you were part of that process too, where folks in fact did identify barriers, so that as the regs were being formulated, that consultation did take place. I just want to get it on the record that in fact there was a significant number of people, including Mr Adams, who were part of that process. He may not have thought he was, but he certainly had a great deal of input into it. I thank you for your input as well.

Mr Stasko: Thank you.

The Acting Chair: Thank you very much, Robert.

Mr O'Toole: On a point of order, Chair: Mrs Cansfield has mentioned that there was a draft issue of regulations. You said there was a draft of regulations out for consultation with Mr Adams and—

Mrs Cansfield: No, I didn't; I'm sorry. I said—

Mr O'Toole: You implied that.

Mrs Cansfield: —toward draft regulations, and the minister indicated that when the regulations were in draft form, they would be made public for comment and consultation. He said that in his speech.

Mr O'Toole: I'd like to be on the record as wanting a copy of the regulations in draft form when they're available.

The Acting Chair: You're on the record. Thanks again, Robert.

ELECTRICITY MARKET INVESTMENT GROUP

The Acting Chair: The next presenter is Robert Power, from the Electricity Market Investment Group.

Ms Leigh-Anne Palter: Good morning, Mr Chair.

The Acting Chair: Good morning. You have 15 minutes. Use it all, or if there is any time left, it will be allotted to questions.

Ms Palter: My name is Leigh-Anne Palter. I'm vice-president, regulatory affairs, for EPCOR Utilities Inc. I'm pleased to appear before you this morning on behalf of the Electricity Market Investment Group, otherwise known as EMIG. Mr Power is here with me this morning. He acts as counsel to our EMIG coalition.

EMIG is a coalition of large-scale private sector electricity generators, wholesalers and retailers who are interested in investing in Ontario. Representing a broad cross-section of market participants, we put aside our normally competitive interests around about November 2002 in order to work together to provide recommendations to government and key policy-makers around electricity sector reform, with the goal of seeing a strong competitive market as the best mechanism for meeting Ontario's needs.

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We would like to say at the outset that we appreciate the commitment to meaningful stakeholder consultation around the development of this legislation that has been demonstrated by the staff of Minister Duncan's and Premier McGuinty's offices. We understand the challenges the government has had to face regarding the electricity sector, and EMIG is committed to working with the government of Ontario to achieve its stated objective of a hybrid electricity sector and to help ensure that the competitive aspects of the hybrid approach work.

As a group, however, we are concerned because we do not as yet see a hybrid approach in Bill 100. For the most part, the details of this bill address the regulated side of the hybrid only.

I'm moving to page 4 now. If the government is truly committed to a hybrid approach, the bill and its subsequent regulations need to support the development of a robust, forward market which has many buyers and sellers and where electricity is purchased on a forward basis and not just hour to hour on the spot market, as was the case under the previous market design. If a robust market does not emerge, then the government will not achieve the necessary investment and assumption of risk in new generation by private sector organizations such as ours, and there could well be a return to the old days of Ontario Hydro where the government and taxpayers assumed all of the financial risks associated with the construction and operation of new generation facilities.

The following is a brief overview of EMIG's key concerns with respect to Bill 100 and its subsequent regulations, which we understand are currently in various stages of development.

Moving to page 5: We're concerned that the absence of any reference to competition in the bill sends a negative signal to potential investors. Together with considerations of efficiency and consumer protection, the object of requiring the facilitation of competition, as previously contained in the Electricity Restructuring Act, is a principle that has figured prominently in a host of primary and secondary regulatory instruments, including OEB decisions, rules, codes, transactional protocols, consumer protection measures, wholesale market rules and more. Therefore, EMIG recommends that the objective of competition be reinserted in the act by modifying section 1(g), as illustrated on page 5, "to pro-

mote investment and economic efficiency in the generation, transmission, distribution and sale of electricity."

Slide 6: We would similarly like to see the following amendment made to subsection 1(1) of the Ontario Energy Board Act, which would then read, "To protect the interests of consumers with respect to prices, choice and the adequacy, reliability and quality of electricity service and to promote the delivery of benefits to consumers which are achieved through the development of competitive markets."

Finally, we recommend that subsection 1(2) of the Ontario Energy Board Act be amended to read, "To promote investment, economic efficiency and cost-effectiveness in the generation, transmission, distribution, sale and demand management of electricity and to facilitate the maintenance of a financially viable and sustainable electricity industry."

The reinsertion of competition into these three key sections of the legislation will send a strong signal to investors that there will be an ongoing commitment to ensuring a balance between the regulated and competitive aspects of this new hybrid market.

Moving to the role of OPG, on page 8: Bill 100 is currently silent on the future role of OPG, which is of serious concern to EMIG members. Recent announcements, such as the Beck tunnel project, Pickering A and OPG's potential involvement in the 2,500 megawatt clean generation RFP, have done little to provide clarity around the nature of OPG's role going forward. EMIG acknowledges that the Beck tunnel and Pickering A projects may be warranted as quick solutions to current capacity constraints facing the province. However, the awarding of these projects does little to allay concern that private capital may be forced to compete against a publicly owned and financially backed generation builder on an ongoing basis.

Page 9: We'd like to explore some solutions. OPG should not be in competition with the private sector. So long as OPG remains provincially owned and/or holds a significant market power, OPG's role in future competitive generation investment should be limited to making potential generation sites available to market investors in order to facilitate private investment and risk assumption. It is EMIG's understanding that the regulations will not deal with the future of OPG, but rather this will be dealt with in the OPG shareholder agreement expected early this fall. We strongly advise that the government should clearly separate OPG's regulated and unregulated assets and business functions. Furthermore, OPG's unregulated assets and related output should be available for forward contracting and subject to market power controls in respect of bidding behaviour. This is essential to the government's goal of achieving a hybrid electricity sector with private investment and assumption of risk.

The bottom line is that private investors need certainty that OPG will not be a major competitor given its existing market dominance.

Moving to the size of the competitive pool: Critical to ensuring the development of a robust market, it is imperative that the regulations under the act state explicitly which assets are to be included in the regulated sector and which will be in the competitive sector. Similarly, it should be made clear that all future generation development should be in the competitive pool.

Bruce Power nuclear facilities should not be added to the regulated pool. This facility is an example of the very type of private investment and risk assumption that should be fostered in the new structure and represents a volume of energy that is critical if any prospect for adequate market liquidity is to be maintained.

With respect to the size of the competitive pool, the bottom line is that minimizing the scope of the regulated asset pool helps to create multiple parties available to buy and sell, which is one of the key cornerstones to a healthy and sustainable competitive marketplace.

You've already heard many people this morning speak to the need for many buyers and sellers. Currently, residential and small-volume customers in Ontario consume approximately 50% of the province's total demand. This demand must be represented in the competitive contract market in order to ensure private sector investment in new generation.

This marketplace interaction can be managed in a number of different ways; for instance, by the customer directly through their retailer, or on the customer's behalf through their LDC. Insufficient activity occurs in the wholesale and forward contracting markets. The ability of the private sector to assume risk in the construction and operation of new generating facilities using the forward market will be significantly limited, the result being that all new generation in the province will require taxpayers and ratepayers to assume the risk of investment. We understand that this result would be inconsistent with this government's objective of transferring risk to private sector investors.

The concept is really quite simple. By analogy, a bank will not provide a mortgage to a person if that person does not have a reliable revenue source such as a job and strong prospects for maintaining that revenue stream. Similarly, a bank will not finance generators to build new plants unless we have a secure revenue source such as long-term contracts. These contracts can either be with the government or with other creditworthy counterparts in the market; for instance, retailers. The simple point is that we need to be able to demonstrate that reliable revenue source. Therefore, the government should seek to ensure that the hybrid model allows for the emergence of many buyers of long-term power contracts, which would in turn enable the government to gradually move out of this role.

Finally, EMIG recommends that the regulations need to limit eligibility for the stable, regulated rate plan to residential consumers. This will ensure that the remaining consumers are incented to enter into competitive contracts. In addition to helping to stimulate a forward contract market, this approach would also have the benefit of saving the government time and money with respect to the ongoing administration of the regulated rate plan and its associated variance accounts.

In order to have many active buyers in the market, there needs to be one clear energy price accessible to both buyers and sellers. The regulations should state that any regulated asset prices or price adjustments should be identified separately from other energy charges for all consumers. Without separate identification of energy charges and regulated market adjustments, comparability between the regulated rate and the unregulated supply options will be difficult if not impossible. This will result in consumers being confused, and they will not be able to make informed decisions about the value of entering into competitive contracts. Furthermore, blending the regulated asset rate with the true cost of electricity will also serve to undermine the government's plan of implementing smart meters with the goal of creating a conservation culture. If the price is blended on the bill, consumers will not see meaningful price signals, which are required to incent conservation.

The role of OPA: The EMIG membership appreciates that the recommendations as discussed this far will not immediately result in a market developed sufficiently such that it will enable the achievement of this government's laudable targets with respect to the dramatic increase in the production of renewable energy and the phase-out of coal-fired generation within the desired timelines and on a market basis. We therefore recognize the important role that the OPA will play through this transition and well into the future.

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In order to allow the maximum opportunity for a self-sustaining electricity market to emerge from this hybrid, it is important that protocols be implemented clearly defining when the OPA is authorized to procure new power. These protocols need to be carefully coordinated with the Independent Electricity System Operator-administered resource adequacy mechanisms, ensuring that the OPA acts only to the minimum extent necessary to address serious capacity shortfall risks. High-level principles outlining appropriate constraints should be included in the regulations.

In conclusion, while Bill 100 sets out a framework which enables the promotion of private sector investment through direct government contracts, it falls short with respect to what EMIG understands to be another important objective of this government, and that is the encouraging of investors to assume some of the risks associated with investments in new generation. As a step toward allaying investor anxieties with respect to the broader electricity marketplace, EMIG hopes that through either the legislation or by regulation these important market issues will be addressed.

EMIG remains committed to working with the government to ensure that Bill 100 truly supports private sector investment that meets the needs of Ontario. In the very near term, the government needs to send positive signals that support both aspects of a hybrid market—the regulated sector and the competitive sector—through legislation, policy and the OPG shareholder agreement. Without these signals, the government and taxpayers will most likely bear the financial risk of meeting the province's electricity needs similar to the days when Ontario Hydro assumed these risks for the people of Ontario.

EMIG appreciates having had the opportunity to present to this esteemed group and welcomes any questions the members of the committee may have.

The Acting Chair: Thank you very much. You have used up all of your time in your presentation. We do require, for Hansard, if you wouldn't mind repeating your name and position again.

Ms Palter: Certainly. My name is Leigh-Anne Palter. My position is vice-president, regulatory affairs, with EPCOR Utilities Inc.

GREENPEACE

The Acting Chair: The next presenter is Dave Martin from Greenpeace. Welcome, Dave.

Mr David Martin: Good morning, Mr Chair and members of the committee. My name is David Martin and I'm energy coordinator for Greenpeace Canada. I don't propose to go through our submissions. You should have two things before you, and I've put copies on the side table. It's in two parts, entitled Greening Ontario's Electricity Sector: Comments on Bill 100, the Electricity Restructuring Act. The first one is a prose presentation and the second is a clause-by-clause analysis of the legislation.

I would like to give you what I think is the big picture here. The government has proposed to move away from a fully competitive electricity sector and create a more planned and regulated structure through the Ontario Power Authority, the Ontario Energy Board and the Conservation Bureau. But whether our electricity is public or private, and no matter how the system is structured, Greenpeace is primarily concerned with how the system is delivered, with the technologies that are used to generate or conserve electricity.

Where does the rubber hit the road? That's where it happens. We need to change the generating technologies that have harmed the environment, harmed human health and hit the pocketbooks of ratepayers in this province in a very big way.

The cornerstone of a sustainable electricity sector in Ontario will be the phase-out of both coal and nuclear generation. On August 9, Energy Minister Dwight Duncan characterized the current restructuring effort as a compromise between the old public power system and a fully competitive model—a very Liberal compromise, I would suggest, and that's fair enough. As I said, Greenpeace is less concerned with the travel plans and more concerned about reaching the destination.

While the government is trying to achieve a balance between the public and private delivery systems, we have a generating system that is extremely unbalanced. It's imbalanced through an extreme dependence on both coal and nuclear generation. Bill 100, I would note, mentions a coal phase-out, but it doesn't tie it explicitly to the 2007

date the government made a commitment to during the election campaign.

It should also include an explicit phase-out of nuclear power. We're suggesting it be tied to a maximum commercial operation period of 25 years. That would take us to the last reactor shutdown for Darlington in the year 2018. We're not suggesting those reactors should be shut down tomorrow; our plan would allow for a very orderly transition and implementation of a green energy sustainable system.

The Ontario government is moving, I would suggest, in the wrong direction very quickly. It's paying lip service to conservation and renewables, while moving on mega-projects that simply repeat the mistakes of the past.

Let's look at what's happening at Pickering: Last month, the energy minister, Dwight Duncan, approved the restart of a second reactor at the old Pickering A station. It was a disastrous decision. Dwight Duncan said on Monday that we have our heritage assets here. He referred to those heritage assets as our hydraulic and our nuclear plants. Let me tell you, nuclear power is not a heritage asset; it's a heritage liability, and a very big one.

The cost of Pickering nuclear rehabilitation is staggering. Back in July, the minister said the cost of restarting unit 1 would be $900 million, four times the 1999 estimate of $213 million and roughly double what the Honourable John Manley told us would be the price just last March. He said it would cost $450 million to $500 million. The cost of restarting the first reactor to come up, unit 4, which started in September 2003, escalated to $1.25 billion, almost three times the 1999 estimate of $457 million.

What does that all mean? Let's put it in perspective: Two thousand megawatts at the old Pickering A station and an overall cost, we're told, according to Mr Manley, of $4 billion—a likely cost. Well, we know the record. We can see what cost escalation happens with nuclear projects, so it's quite probable it will be more. But for the same price, $4 billion, 4,000 megawatts of wind turbines could be built. What do we get? Two thousand megawatts of old, dangerous, unreliable reactors, and who knows how long they'll last.

The vast expenditure on Pickering and other nuclear plants is bad from a performance and environmental viewpoint and, I would suggest, it's also skewing and subverting the market, as we've just heard from the last presenter. So if the government really wants a balance between public and private, it's certainly going about it in the wrong way by proceeding with the reconstruction of the Pickering reactors.

Just today, the minister was quoted in the Toronto Star supporting a new mega-project in the form of the Conawapa Dam on the Nelson River in northern Manitoba. That would provide about 1,000 megawatts of capacity, but only at the expense of thousands of kilometres of transmission line from the Manitoba border to get to the southern Ontario market, not to mention the environmental costs of the dam itself, not to mention the transmission line to get it from northern Manitoba to southern Manitoba.

The question, I think, is whether or not we need some new approach. What are we hearing on the new front? Both Premier McGuinty and the Energy Minister have suggested repeatedly that they would not rule out the construction of new nuclear plants. Given the astronomical costs and abysmally poor performance of nuclear power in this province, I would suggest this is an extremely irresponsible proposal and one that should be put to rest sooner rather than later.

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I know that there have been discussions as well of public-private co-operation on nuclear development, and I understand that the government is negotiating behind closed doors with Bruce Power. But I would suggest that this is a sucker deal. If the government has to guarantee a market for that private producer, and if it has to take over financial responsibility for radioactive waste and decommissioning—the long-term liabilities—what it amounts to is public subsidy for private profit. We've already seen one of those deals. The previous government signed it with Bruce Power. We don't need another.

So where do we want to go on the positive side of things? Well, we need green energy. The government has committed to 5% of new supply from renewables by 2007 and 10% by 2010 on the demand side, and 5% demand reduction by 2007 and 10% by 2010. I would suggest this is going to be too little and too late. We really need to ramp up the good stuff.

You've heard from a number of people in the nuclear industry on the first day of hearings that nuclear power is clean. That's simply not true. Nuclear power plants release radioactive pollutants to air and water routinely and accidentally. There are 40,000 tonnes of high-level radioactive waste piled up at reactor sites in this country, with no solution in sight to the long-term management.

What about the demand side? What about conservation? Conservation has to be the priority. There was a lot discussion on Monday about rates. I think the discussion about rates really missed the point. I'll give credit to Minister Duncan. He had the courage to admit that a mistake was made in committing to keep the cap on rates. We have to pay the real cost of electricity, and kudos to the government for admitting that.

But I think he missed an important point in responding to Howard Hampton, and that is if we do pursue conservation aggressively, that means that although rates are going to go up inevitably, the bills that people pay for their electricity can come down because they'll be using less electricity. But we have to deliver on the green energy agenda, and we have to do it big time. Otherwise, the commitment to coal phase-out is going to be endangered.

I would suggest that the bottom line here for us is that if Ontario truly wishes to embrace a sustainable electricity future, it must be pursuing those green energy alternatives and it must phase out nuclear power as well as coal. If we want to avoid repeating the mistakes of the past, we're going to have to make some changes in Bill 100, and we're going to have make some changes in the

way we really run and operate our electricity system in this province.

The Acting Chair: Thank you very much. We do have some time for some questions, and I'll be starting with Mr Arnott.

Mr Ted Arnott (Waterloo-Wellington): Thank you very much, Mr Chair. Thank you, sir, for your presentation this morning. I found much of your presentation to be very interesting. I recall that Greenpeace certainly has played a consistent role over the years in terms of this issue.

You've spoken against the concept of coal-fired generation of electricity, as well as the nuclear generation of electricity. If you had a choice, which would you phase out first?

Mr Martin: We're often faced with this question of which poison you would prefer to swallow: the coal poison or the nuclear poison. The reality is that we can do without both of them. I would refer you to the study that was done by the Pembina Institute and the Canadian Environmental Law Association. I refer to it in my brief. You'll hear from one of the primary authors later on today, Mark Winfield, but I was a co-author of that study as well.

We can do without coal and we can do without CANDU reactors. The basis of it has to be efficiency and conservation, followed by renewable energy and, if necessary and as a last resort, yes, we will need possibly some high-efficiency natural gas plants. By "high-efficiency" I mean not just combined-cycle gas turbines but combined-cycle gas turbines in combined heat and power—that is, cogeneration—applications.

Mr Arnott: If Ontarians seriously embrace the concept of conservation that you espouse and that I think we all agree is desirable, how much electricity do you think we could save? What would be a reasonable goal in your mind in terms of reduced energy consumption?

Mr Martin: As part of the study that we did, Power for the Future, we did very complex simulations, out to 2020, and put in all the supply-side variables and looked at a business-as-usual scenario in terms of demand. So it was rather conservative in the analysis. We projected that demand could be reduced 40% by 2020 as against a business-as-usual scenario. That's a massive impact. There's no question that, if we're going to do this, if we're going to turn it around in this province, that's how it has to be done.

The great thing about it is that it's a cheaper alternative by far for ratepayers. The Electricity Conservation and Supply Task Force that the previous government put together and that reported earlier this year suggested that under their scenario, with a nuclear-based supply, the cost would be about $39 billion. Under our scenario, primarily based on conservation, including a nuclear and coal phase-out, it would be $23 billion; in other words, a $16-billion savings. Those are savings that go back into the pockets of consumers, because most of the investment has been in conservation and efficiency.

The Acting Chair: Thank you for appearing before the committee.

ONTARIO MINING ASSOCIATION

The Acting Chair: Our final presenter before we break for lunch is Peter McBride from the Ontario Mining Association.

Mr Peter McBride: I'll certainly allow time for questions. I have handed in a written submission on behalf of the association. That will be on the record, but I'll try to be brief. We don't want to stand in the way of lunch.

Thank you for the opportunity to be here. I think this is a crucial piece of legislation for the future of this province.

The one thing I would like to stick with talking about today is price. For miners, price matters a lot. The fear we see is that many government actions right now are putting an upward pressure on price. There's a fallout from that that can harm mining specifically. It can obviously hurt the provincial economy. It can dim prospects for northern development. I'm glad to see Mr Hampton has come, so we have some representation from northern Ontario. It also can harm economic prospects for First Nations.

The economic realities of mining in Ontario: It's an annual electricity bill, collectively, of about $250 million. Electricity represents between 10% and 15% of operating costs, which, next to labour, is the biggest single component. The range of electricity, being a component of operating costs, for industrial minerals operations could be as low as 5% or 6%, but for some zinc producers it's as high as 35%. So any price increase, when you multiply it through, is significant.

Unlike manufacturing or retail business in this province, mining faces international competition. The prices for mineral commodities are set globally. There's no way for any producer in Ontario to set the price of whatever they're producing, whether it's silver, gold, salt, nickel. Companies are price takers, and they cannot pass cost increases on to consumers.

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Sometimes we forget—people see Muskoka and a lot of rock north of Toronto, but "ore" is defined as metalliferous rock that can be mined at a profit. Any increase in operating costs of getting that metal out of that ore can turn that ore into rock very quickly. Any increase in a major component of input costs like electricity certainly affects investment decisions for exploration and new development. Sometimes you'll see an auto plant, when business is slow, cut back on production and maybe lay off a percentage of their workforce. In the resource sector, when you're dealing with commodities, it's not that simple. You go over the edge. If, all of a sudden, the price to produce a pound of nickel costs more than you can sell it for on the world market—remember, you can't set that price—you're shut down. Metallurgical plants in this province, because of high electricity prices, have shut down in the past. It's a reality. So we urge you, I'd say, to proceed cautiously and consider what impacts that any changes that affect price will have.

Mining, just for the record, does take place in all parts of the province. There are at least 50 communities

dependent on it. You're looking at 20,000 direct jobs and about 70,000 indirect.

The industry, depending on price of commodities, is roughly a $5-billion-a-year industry, which is a huge contributor to our exports. The supply and services sector for mining is more than a $5-billion-a-year industry because of exports and international policies.

The fear too is that rising electricity prices will affect mining, which I think can impair other government policies. I don't think we need to be reminded that there are social and economic costs to unemployment. We deal with a part of the province that—I don't like to use the word—has a more fragile economy, but it certainly has a less diversified economy than southern Ontario. I think the term "sustainable development" has to include jobs for the next generation of people coming up.

Mining is one of the main engines of economic growth in northern Ontario. If mining is harmed, I think that can limit or restrict possibilities for future development in northern Ontario. As we sit here in the south—I can't pretend to speak for everyone, but not everybody in this province lives in First World conditions. First Nations in this province are gaining both employment and entrepreneurial opportunities through their involvement with mining companies, and I think we would like that to continue.

Just before concluding—I see Mrs Cansfield here. We have appeared before the conservation action team.

I think mining companies, because of the harshness of their economic realities, are part of the solution. They've had a lot of experience in generating electricity; in conservation—again, not conservation because it sounds nice or necessarily because it's the right thing to do, not because of altruism, but because of economics. It's there. There's a lot of experience with load shifting, which helps out. Certainly mining companies are involved in demand response, which is helping the whole system, and in infrastructure development.

As I say, that's just one topic I wanted to hit on in my time today. There is a written submission, and I'd certainly be pleased, Mr Chair, to answer any questions, if there are some, from the committee members.

The Acting Chair: Thank you, Mr McBride. We do have time for questions, and I'll start with Mr Hampton.

Mr Hampton: Thank you very much for your presentation. I've had an opportunity to look at some of your written comments as well.

Let me ask you this: What in particular about pricing here worries you? Are there two or three things that you're really concerned about that you think could result in price increases that are simply unaffordable for the mining industry?

Mr McBride: Yes, I think we can partly agree that prices are probably going to go up. There are enough factors in the world that are going to contribute to that. But specific government actions—whether they're involved in the market power mitigation agreement, the mismanagement of Ontario Power Generation Inc, which we all pay for, and I'll say the mismanagement of Hydro One, which we all pay for, and we have been for a long time.

Whatever the merits are of the coal phase-out for health or economics, I think a province like Ontario eliminating, by policy, one potential source of power is not the way to go. I think there are other ways to handle that by regulation. I know Mr Duncan likes to talk about the physical geography of Ontario, and yes, we can't match Quebec, Manitoba or British Columbia for hydraulic power, which I think makes it all the more important that we don't rule out any potential source. There are coal technologies. I know there are other problems, and people will come here and talk about gas and other factors, but I just don't think that, as a matter of policy, eliminating one potential source is the way to go.

Mr Hampton: You refer specifically to the Ontario Power Authority. Can you just tell me what your concerns are there with the proposed power authority?

Mr McBride: Again, we're stacking costs on. I think it's creating a new bureaucracy that doesn't seem to have a sunset clause. It's something we're all going to pay for in our kilowatt hour charge for electricity. We've had enough bureaucracy in the electricity market here. I don't think we need another institution.

Mrs Cansfield: Peter, thank you very much. A couple of things. One, it would be really helpful if, for example, you identified the concern around the coal phase-out, that it could be handled by regulation. If you could give us an example in writing—you don't have to do it now, Peter—that would be really helpful for us to look at.

The other is the issue of the provision of the sunset clause and the Ontario Power Authority. There are 10 provisions within the bill of what is enabling for the OPA, what it's supposed to do. If you could look at those 10 provisions from your perspective and say to us, "This is good, this is bad, this needs sunsetting, this needs grandfathering, this could be handled differently," those are the kinds of things that would be particularly helpful.

Then the last question, and I had it, was about the pricing. I do not purport to have a total understanding of this. Anybody knows how complex the sector is. You won't be in the regulated; you would be in the spot or the day-ahead. Do you prefer the day-ahead or the spot? If the prices have gone down, I think it's about 19% in the last while, then which is a preferable way of doing business for you?

Mr McBride: I'll back up a little bit on that. I think the philosophy of any kind of business is that when you've got a large input cost, you want the opportunity to manage it, unlike the Ontario Hydro days of sort of, "Take it or leave it; just pay your bill." In a business sense, you want the opportunity to manage that, so, Mrs Cansfield, I think different companies may handle that differently.

I think a lot of the major mineral producers in Ontario, though, would opt for a system—since many of them have shifted a large part of their load to non-peak hours for heavy activity like grinding, hoisting and things like that, it would be a mix. It would be trying to cover a

component of your load by a long-term contract but having the flexibility where you would go for the spot market.

Mrs Cansfield: Then also the whole issue around removing the barriers to cogeneration would be of significant impact to your industry.

Mr McBride: Yes, it would. But again, as long as—and I will take you up on your offer, I think, for the coal situation, of how you could sort of regulate emissions to do that. That can be done as in other jurisdictions, and we'll certainly look at the OPA, the 10 things, and get back to you. We'll be pleased to take advantage of that opportunity.

The Acting Chair: Thank you very much. It's 12 o'clock.

Mr O'Toole: Do I not get a question?

The Acting Chair: Do you want a question?

Mr O'Toole: Yes. Thank you for your presentation. AMPCO's presentation this morning pretty well summed up, representing the major industries that are highly dependent on electricity, indicating a 30% to 53% increase in price, whether it's day-ahead, spot market, whatever. It all shows up somewhere in your contract.

I did hear a lot of presentations this morning that dealt with distributed generation in remote, hard-to-service areas. Have you any feeling on cogeneration or distributed generation systems? What is your industry doing to look into and see the business case that could be made for allowing that to happen in hard-to-service areas, because of line loss and other things? Do you have any comment on that?

Mr McBride: Yes, the industry is doing a lot in that area. Historically, mining has been going on in Ontario long before Ontario Hydro came into existence. For instance, Inco in Sudbury has five hydraulic plants. It generates 20% to 25% of its own power and feeds into the local distribution company. If you look at a road map of Ontario, the roads end at mines, basically. Red Lake's a good example, going north from Thunder Bay. Those companies had to bring infrastructure with them to get going. Unfortunately, when you're starting up and doing exploration, a lot of it's diesel-powered and whatnot. But for mining companies, particularly for combined-cycle, it's gas, going ahead. But for run-of-river, small hydraulic operations are big time.

Local distribution, or making the power close to where it's needed, is significant, but I think that's a bigger problem in southern Ontario. Other than the nuclear plants, most of the—depending on your definition, if you count hydraulic as renewable, you're getting a lot more power in northern Ontario coming south than vice versa.

The Acting Chair: Thank you very much. The committee stands adjourned until 1 o'clock.

The committee recessed from 1200 to 1305.

Report continues in volume B.

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Also taking part / Autres participants et participantes
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