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Thursday 7 September 2006

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Jeudi 7 septembre 2006

**Standing committee on
government agencies**

Agency Review:
Hydro One

**Comité permanent des
organismes gouvernementaux**

Examen des organismes
gouvernementaux :
Hydro One

Intended appointments

Chair: Tim Hudak
Clerk: Tonia Grannum

Nominations prévues

Président : Tim Hudak
Greffière : Tonia Grannum

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ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

STANDING COMMITTEE ON
GOVERNMENT AGENCIESCOMITÉ PERMANENT DES
ORGANISMES GOUVERNEMENTAUX

Thursday 7 September 2006

Jeudi 7 septembre 2006

The committee met at 1005 in committee room 1.

AGENCY REVIEW

HYDRO ONE

The Chair (Mr. Tim Hudak): Good morning, ladies and gentlemen. The standing committee on government agencies, for its meeting of Thursday, September 7, 2006, is now in session. Today we have the third of our agencies for review: Hydro One. I'd first like to recognize and thank Rita Burak, the chair, and Tom Parkinson, the president and CEO of Hydro One, for their attendance. Thanks for being here and joining us.

We'll follow the same format that we have the last couple of days. The morning session will consist of some opening comments by Ms. Burak or Mr. Parkinson, and then we will break into 15-minute segments for Q&A divided equally among the caucuses. Hydro One is at the call of the third party, so Mr. Hampton will have first dibs on questioning and we'll see how the rotation works.

Similarly, in the afternoon, as we've followed the last two days, we have a number of interested groups to offer comment for the committee's interest on Hydro One. Again, the third party will begin the questioning with the 1 o'clock session, and then we'll follow the rotation basis divided up by equal time for each of those half-hour blocks.

Monsieur Bisson had asked for Mark Holmes, the Ontario Forestry Coalition, to appear before the committee for 1 p.m. That is now on the agenda but we're just confirming all the details around that, so we'll let committee members know if indeed the 1 o'clock is solidified or not.

I will let folks in the gallery know as well that if the gallery does fill up, room 228 is an overflow room where the broadcast is also taking place. So if we have excess bodies to seats, room 228 will remain open throughout the day.

There's no other business or votes planned for today so we will now proceed with the interview of Hydro One. Again, Ms. Burak and Mr. Parkinson, welcome. I'd ask you to make some opening comments on Hydro One's behalf.

Ms. Rita Burak: Thank you, Mr. Hudak. We appreciate this opportunity to share information about Hydro One and to answer questions from members. We will introduce staff from Hydro One who may be called upon

to assist the committee as they may be called up to the table.

I know that the committee is especially interested in the issue of accountability. I would like to begin my remarks with an overview of Hydro One and our governance structure.

Hydro One has over 4,000 employees and nearly \$12 billion in assets, made up primarily of Ontario's bulk electricity transmission system, and distribution assets serving 1.2 million, mostly rural, distribution customers. Last year, the company had total revenues of \$4.4 billion, a net income of \$483 million and paid \$198 million to the province in lieu of corporate taxes.

We are an Ontario Business Corporations Act company with one shareholder: the province. Our legislative framework is similar to that of other utilities. In addition to the Electricity Act, the Ontario Energy Board Act and various federal and provincial statutes, however, we are also covered by the Freedom of Information and Protection of Privacy Act, and are audited by the Auditor General of Ontario.

We are public debt issuers and so must comply with all of the laws, rules, covenants and best practices, including comprehensive disclosure requirements, of other corporate public borrowers. We have received positive governance assessments from the external rating agency, Moody's. We are also governed by a memorandum of understanding with the province, and meet regularly with the Minister of Energy and others in the Ontario government.

Our board is comprised of individuals from the private sector who are reappointed each year by the shareholder. The board's overall role is one of oversight and providing strategic direction to the company. As well, we appoint the CEO.

Material provided to the committee details the company's achievements over the last few years; however, I would like to mention a few that the committee may want to pursue.

I would like to touch on three key projects: first, the Ontario Grid Control Centre, which has been cited for excellence by the North American Electric Reliability Council and which was completed on time to a budget of \$118 million. Opened in 2004, the OGCC is a state-of-the-art operations command centre. It is from this centre that we can monitor the system, respond to the system's needs, and dispatch crews. This facility has eliminated

the need for multiple regional control centres—there were originally 13—and results in improved operating efficiencies, supply reliability and a higher level of customer service.

1010

Second, the Parkway transformer station was also completed on time and on budget, and enabled the closure of the Lakeview coal generating station. This station ensures reliable electricity supply to customers in the northern GTA. It was the first station of its size to be built in the province in the last 15 years, with a budget of \$140 million.

Third, the downtown Toronto cable project is also on time and on budget and currently under construction. The cable, running two kilometres 90 feet below Front Street, from the St. Lawrence Market to just past the CBC building, will reinforce the connection between the east and west sides of the downtown core. The cost of this project is \$45 million and the planned in-service date is the fourth quarter of 2007.

Reliability of the transmission and distribution system is a priority for the board and the company. The company has spent over \$5.5 billion since 2002 to ensure sustained reliability of the transmission and distribution system.

The impact of these investments has enabled the system to withstand a recent all-time peak in electricity use. While making these investments, the company has also improved work processes and achieved efficiencies. Cost-saving initiatives have resulted in broad-based and effective savings of more than 5% per annum since 2002.

We are committed to ensuring that Hydro One plays its part in conservation. The company has launched a number of conservation initiatives over the last few years. For example:

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

The company monitors satisfaction levels among large, mid-size and residential customers and has achieved good results.

Large customer satisfaction increased from 42% in 2002 to 91% in 2006. Mid-size customer satisfaction over the same period increased from 58% to 74%. Residential customer satisfaction continues to track in the 80% range.

The company has set a goal to have 90% satisfaction across all customer segments by 2010.

Stable financial performance remains a key goal at Hydro One. The company's strong and stable financial profile underpins its strong credit ratings. Hydro One's credit rating was recently upgraded to A—high—by Canada's Dominion Bond Rating Service. Standard and Poor's and Moody's have also upgraded Hydro One's credit ratings in the last three years, which currently stand at A and AA3 respectively.

The company's strong financial profile provides us with the flexibility to access the debt capital markets under most conditions at reasonable costs. This flexibility is important to obtain the necessary financing for investments in the transmission and distribution system.

In conclusion, the board has given direction to the company to focus on core business and seek efficiencies. The accomplishments I've mentioned can be attributed to our CEO, to the professional managers of the company and our bargaining unit partners, all of whom take great pride in their work.

Hydro One is consistently rated favourably by external reviewers, and we rank with the top quartile among comparable utilities in all benchmarking categories. The board of directors and everyone in the company are very proud of the company's progress and achievements of the last few years.

We look forward to the committee's questions and insights. Thank you, Mr. Chair.

The Chair: Outstanding. Thank you very much for the presentation. Let me from the outset thank Hydro One and its team for these rather extensive briefing binders in response to members' questions: not only comprehensive but gave us a good workout in lugging these things around from room to room.

Secondly, on behalf of the committee, thanks for the very kind offer of hosting the event at your Barrie facility. We appreciate your offer of hospitality. As you know, ultimately the committee decided to keep the hearings here at Queen's Park, but I want to say thanks for the kind offer at the outset.

Mr. Hampton, you'll have 15 minutes of time—we'll follow with 15-minute rotations until we hit noon—for any questions and comments with respect to Ms. Burak and Mr. Parkinson.

Mr. Howard Hampton (Kenora–Rainy River): First of all, I want to say thank you for your appearance here today. I think everyone acknowledges that the work that Hydro One does is important for all Ontarians. I would argue it is critical to Ontario's economy, and we've certainly seen evidence, I think, over the last few years of just how important Hydro One's role is.

I want you to know that I take the issue of accountability very seriously. You account for a fair bit of expenditure within Ontario's economy. A lot of private sector activity is dependent upon what you do, the kinds of decisions that are made and how those decisions work out in the long run. I think it's important that we have the opportunity to ask some questions about those things.

I'm going to start with something that has attracted a fair bit of media attention, and I think it's a fairly simple question: What is Hydro One's policy with regard to the use of the corporate helicopters?

Ms. Burak: For the first question, the answer to that is very simple. The use of company helicopters is for legitimate purposes only.

Mr. Hampton: Can you define "legitimate purposes"?

Ms. Burak: Any work-related business that might require transportation and the use of the helicopter.

Mr. Hampton: Work-related business. I guess I have to ask the next question: How do you define “work-related business”?

Ms. Burak: The helicopters are used for a wide variety of operational purposes: the travel back and forth of workers and people on legitimate Hydro business.

Mr. Hampton: Okay. Is it the policy of the company that all passengers are recorded when riding on a Hydro One helicopter? We just saw some difficult situations north of Peterborough where transmission lines, I understand, were knocked down, distribution lines were knocked down, so somebody had to go into that site by helicopter. Would the names of all the workers, the names of all the people travelling on that helicopter be recorded?

Ms. Burak: I believe a log is kept. Tom, maybe you can speak to that.

Mr. Tom Parkinson: My understanding is that the number of passengers is recorded.

Mr. Hampton: The number of passengers?

Mr. Parkinson: Yes.

Mr. Hampton: Not necessarily their identity, who they are.

Mr. Parkinson: I think that’s a Transport Canada requirement, to report the number of passengers.

Mr. Hampton: Okay. But names are not recorded, just the number.

Mr. Parkinson: Typically the number, yes.

Mr. Hampton: Are names ever recorded?

Mr. Parkinson: No.

Mr. Hampton: And that’s been company policy for some time, just the number of people on the flight?

The Chair: Can I interrupt for a brief second? If people from Hydro One who aren’t at the table answer a question, just get their name for the record. We’ll do that going forward. Thanks. Sorry.

Mr. Hampton: Are family members of Hydro One employees permitted to ride on corporate helicopters? In other words, I may have work to do, but do family members ride on the corporate helicopter as well?

Ms. Burak: Tom, do you want to speak to that?

Mr. Parkinson: Not as a general rule, no. There would need to be exceptional circumstances, yes.

Mr. Hampton: What would those exceptional circumstances be?

Mr. Parkinson: If there was no practical alternative and if the person in question who was on corporate business had no practical alternative, that may happen. But that would be a rare and exceptional circumstance.

Mr. Hampton: I guess I’d have to ask—“no practical alternative.” I’m somebody who flies around a lot in this province. I travel a lot in this province. Sometimes it’s by bus; sometimes it’s by train. Occasionally it’s been by helicopter. Often it’s by airplane; often it’s by driving. What does “no practical alternative” mean?

Mr. Parkinson: I’m using it in the ordinary context: no practical alternative.

Mr. Hampton: Okay.

Can you tell me: What is the average duration of power outages since May 2005? What’s the average duration of the power outages that you’ve had since May 2005? I don’t have to have that information immediately right now. If you can give me an estimate and provide me with more accurate details later, that would be helpful.

1020

Mr. Parkinson: We’d be happy to provide since 2005, or we can provide history before that, if you wish.

Mr. Hampton: I’m particularly interested in May 2005. Do you have a sense of what the average duration of a power outage has been since 2005?

Mr. Parkinson: I’ll call Myles D’Arcey, our VP of customer operations.

Mr. Myles D’Arcey: The average restoration time would be 175 minutes. That’s from the time of the initial call to the actual restoration of the power.

Mr. Hampton: So average restoration time and average duration of outage is the same thing?

Mr. D’Arcey: Yes.

Mr. Hampton: You refer to it technically as average restoration time? That’s the technical term?

Mr. D’Arcey: That’s correct.

Mr. Hampton: That’s the figure since May 2005?

Mr. D’Arcey: Yes, it is.

Mr. Hampton: Do you know what the figure would be before May 2005? In other words, if we look back historically?

Mr. D’Arcey: Yes, I believe it fluctuates, but it has run somewhere between 185, 183 minutes. Again, that’s for the restoration time; that’s from the time the crew is dispatched till the problem is actually resolved. We also track response time, which is an OEB standard, and we meet the standard associated with response to the initial call, which is under 120 minutes.

Mr. Hampton: So there are two figures, then? There’s the restoration time, which is the time when you receive the call stating that power is out, the time from that point until power is restored, but there’s another figure?

Mr. D’Arcey: There’s an OEB requirement associated with response to. So from the time that the call is initiated until the time the crew responds on-site is 120 minutes. The average time for us to respond and repair—which is the restoration, separate from the OEB target requirement on response. We monitor and track our restoration time—that’s respond and repair—and the respond and repair average restoration time is 175 minutes. That is an improvement over the past few years.

Mr. Hampton: That’s an improvement over prior to May 2005?

Mr. D’Arcey: That’s correct.

Mr. Hampton: Just so I’m clear, what was the number before May 2005?

Mr. D’Arcey: Again, we track it on an annual basis, and I’d say going back over the previous years it would fluctuate, but somewhere in around the 180- to 185-minute mark.

Mr. Hampton: That's restoration time.

Mr. D'Arcey: Restoration time; that's correct.

Mr. Hampton: One of the things I hear from people who work on the transmission and distribution systems is that this can be very dangerous work. Has Hydro One's overall health and safety record changed, and what are the details of your health and safety record going back over the last three years, last six years, last 10 years? Do you know what the figures are on that?

Mr. Parkinson: I can speak—and we can provide the exact figures—to Hydro One's health and safety approach, certainly since 2002. I can't speak to it before that. But in 2002, the new board of directors decreed that health and safety would be the company's number one priority. We set about an extensive program of improving our safety record, and it was in two phases. I would say that before that, we were around the middle of the pack of Canadian utilities. We set a phase one objective of getting to the top quartile of Canadian utilities on measures such as lost-time injuries, injury duration and, most specifically for our board, injuries that are serious and potentially fatal in nature. Our phase one objective was to get into the top quartile, and we achieved that in 2004.

Our second-phase objective was to eliminate lost-time injuries from the company. If you consider the size and complexity of Hydro One, the geographic territory we cover, the inherent danger of our business and the difficulties that we face, you'll realize that that is quite a challenge.

The board initially set a target of eliminating lost-time injuries from the company by 2006. We won't achieve that target, although we have made very dramatic improvements, and that's acknowledged throughout the industry.

We now are a top-quartile company. Our current focus is on eliminating serious injuries and near misses in six categories that can injure or kill our workforce—issues like electrical contact on the job, falls from height, serious motor vehicle injuries etc. We've had dramatic improvements, and we're very proud of that.

Mr. Hampton: I'm told that the Ministry of Labour keeps a list of high-risk firms with respect to health and safety.

Mr. Parkinson: That's correct.

Mr. Hampton: I'm told that Hydro One is in the top 2% of the Ministry of Labour's list of high-risk firms with respect to health and safety. Does that accord with your knowledge?

Mr. Parkinson: We've recently been identified as a high-risk firm, that's correct, but we have requested to work with the ministry to see whether the figures that they've based that on are accurate. Our view is that they're not and that there is some mistake or misunderstanding. We're working through that at the moment.

Mr. Hampton: Do you know why the Ministry of Labour puts you in the top 2% of high-risk firms? Have they told you why?

Mr. Parkinson: We're working through that at the moment to verify why that is.

Mr. Hampton: In the Hydro One annual report 2005, were concerns raised about the future shortage of skilled technical staff?

Mr. Parkinson: Yes.

Mr. Hampton: Can you tell me the nature of that concern?

Mr. Parkinson: If you'll bear with me going through a bit of history, the history at Ontario Hydro was that, for the past 10 or 15 years, there has been a very low level, or an absence, of hiring of skilled technical staff. Then, in the late 1990s and the early 2000s, there were a couple of voluntary retirement programs, quite generous retirement programs. The company had no ability to select the people who took advantage of that. So as a result of that, the company lost a very significant number of skilled staff. I should point out, too, that that's not something unique to Hydro One. That's a phenomenon right across Canada and right across North America.

So we were left in a position in 2001-02 where the new board received a report on the demographics of the company and the skills of the company. We identified back in 2002 as a strategic priority that we would seek to recover from that. We were ahead of the game on that, and we decided then that we would commence hiring electricians and other skilled staff. We did that, and we brought our first batch of apprentices in in 2002 under that program.

We've now got something like 400 apprentices in the system. So Hydro One's actually in very good shape on that basis, and we've also increased the number of engineering and technical specialists in the company, too. We provided the exact figures in the information, but from memory, there were 750-something society members in 2002 when I became CEO. I think, last year, that number was up in the high 800s. So we take that very seriously.

In fact, if time permits, we're actually leading a Canada-wide initiative on that. Mr. Tom Goldie, our VP of corporate services, is in the room and can outline, if you wish, the initiative that we're leading across Canada through the Canadian Electricity Association. I'm currently the chair of the Canadian Electricity Association. So not only have we addressed that within Hydro One; we've led a Canada-wide initiative on that.

The Chair: Thank you very much. If Mr. Hampton wants to pursue that in his next round, Mr. Goldie is welcome to come forward, if Mr. Hampton so chooses. I would say, too, if there's a request from committee members for further information, you could do so through the clerk's office, and she will distribute that to all of our members. I would also ask, if at all possible, a deadline of September 16—a week from Friday—so that members have the information in plenty of time for our report-writing segment.

We'll now go to the government side for 15 minutes: Ms. Mitchell.

1030

Mrs. Carol Mitchell (Huron–Bruce): Thank you very much for coming and making the presentation today, to both of you and to your team as well. During your presentation you talked about financial stability and you went on to talk about some of your key investments. But what I would like to give you the opportunity to do is to talk about what you have done for cost savings and give you the opportunity to expand on that: what you have done within your organization to ensure that accountability and transparency remain intact.

Ms. Burak: I'll just start by saying that our board is especially conscious of this issue because of the impact of how well we do or do not do on this topic on ratepayers. I believe, Mr. Parkinson, you could speak to a few examples of what we've done to achieve savings that resulted in a better bottom line.

Mr. Parkinson: As the chair has said, the board has identified and has been very strong on the issue of productivity and cost savings because we're very conscious that if we don't keep our costs under control, that flows through to rates for households and industry.

We've actually taken major strides to do two things: to streamline Hydro One and get our costs under control, and also—and it's a related issue—to focus our business back on its core operations. Before 2002, we were a business that was focused very much on expansion into the US and getting into a variety of quite risky businesses. The new board focused us back on our core transmission/distribution business in Ontario and mandated that we achieve significant savings.

From the period of 2001 over to 2005, we've achieved identifiable savings of about \$378 million in total, and that's on a total cost base of around \$6.5 billion, so quite significant percentages. Our percentage cost savings obviously will reduce as time goes by because we've taken the relatively easy decisions in the front half of that period. So we will face diminishing returns as time goes by.

Just some of the examples of things we've done: We've increased our staffing flexibility. We were primarily hiring 100% of our staff as full-time people prior to 2001. We now have something like 25% to 30% of our staff on hourly hire, contract-basis, through the power workers' union hiring hall, basically, so that gives us great flexibility so that we can staff up and down as the workload changes. That's one big initiative to save a lot of money.

We've invested in new tools and new technology. For example, if you look at the Hydro One fleet today, it's very different in age and composition than it was four or five years ago. And the utilization rates on the fleet have increased dramatically. They've come from 30% to 40% on average up to 70% to 80%. So we've got better equipment now but it's utilized much more fully, which obviously makes our workforce happy as well. We've got mobile information technology now in a lot of our vehicles across the province, so our staff can start work without coming into a work centre first; they can go

directly to the job and we can tell where they are and what they're doing.

We've optimized our meter-reading routes. That saved us millions of dollars. We had, back in 2002-03, a very dramatic reduction in our corporate head office staff as well. The board focused on management first, and we had somewhere around 150 staff reductions. We had significant reductions in compensation levels and bonus levels, we eliminated long-term incentives from the company, and we introduced a new pension scheme for management staff going forward. So our corporate functions and service costs are much lower now than they were.

We've saved tens of millions of dollars through strategic sourcing initiatives. We buy a lot of material—transformers, steel, cable—and we've made sure that we get the best deal now. We're doing very well at that.

Rita mentioned in her opening remarks the centralization of the operations facilities up at Barrie.

I could go on, but I want to leave time for other questions. There's a raft of initiatives we're very proud of.

Mrs. Mitchell: Thank you. The members are all anxious to ask questions.

The Chair: You have about 10 minutes in this round remaining still. Ms. Smith.

Ms. Monique M. Smith (Nipissing): Thank you. I had a question following up on your discussion on your skills shortage and how you've addressed that. In my community of North Bay, we've found a similar shortage in some of our major employers, and certainly through our community college we've seen some great partnerships developing with our high schools and colleges, ensuring that we have some skills trade development up in our area. I know that my college, Canadore, in particular has been very responsive to our employers in trying to provide those skills. I just visited their electrical training facility last week, which is great.

I really wanted to hear from you or Mr. Goldie about what you've done to fill that gap. You sound like, with 400 apprentices, you're certainly at the front end, which is great. I just wanted to hear more about that program and how you're moving forward with that.

Mr. Parkinson: I'll call Mr. Goldie, our vice-president of corporate services, up. While he's coming up, I'll say that in addition to hiring new apprentices, we've also worked with universities and colleges, because one of the consequences of not hiring for 15 years is that there's no demand within the university and college system for the courses that we need—power engineering, for example. So we're working with universities in partnership to develop the courses. But I'll ask Mr. Goldie to elaborate.

Mr. Tom Goldie: Thank you for the opportunity to speak to this issue. Maybe where Tom has started is a very good—

The Chair: Again, we have to ask for your name.

Mr. Goldie: I'm sorry. Tom Goldie, senior vice-president of corporate services.

The Chair: Thank you.

Mr. Goldie: We've tried to deal with this on a number of levels because the issue is obviously multi-faceted, at the management level, at the engineering level and at the trades and technology level. Certainly at the engineering level, as Tom has said, one of the things we've tried to do is work with universities to get their programs back up, because when you're not on campus for a four-year period, that's a lifetime for university students. So when you go in and say, "We're Hydro One and we're here to do you hire," they're going, "Well, who are you and where do you fit into the sector?" There's a lot of work going on at the university level to get those programs re-established and show that we need power engineering.

At the trades and technology level, it's the same process. We recognize there's a need for partnership with educational institutions, and we're working through that at the present time.

One of the initiatives Tom was mentioning was the Electricity Sector Council, of which I am chair. That is a non-profit organization. Some of you may be very familiar with sector councils. Different industries have them. Construction has one, travel has one, tourism has one. There's a number of them across Canada. They are organizations which pull together employers, educational institutions and other interested associations, as well as trade unions, to try to get people interested in the particular industry, which in our case is obviously the electricity sector, but also to ensure that there is a skilled and highly trained workforce able to move into positions as they become available.

This is a national issue. The sector council stretches across Canada. There are representatives from all provinces, from many of the electricity businesses across Canada—transmission, distribution, non-utility generation, renewables. Anybody who has a stake in the electricity sector is involved. We're doing a lot of work at the community college and university level all across Canada to try to make sure that they are going to be producing people who are able to come and work in the industry.

In addition to that, we're working with other organizations to encourage them to establish apprenticeship programs and training programs. One of the reasons that I was appointed as the chair of the Electricity Sector Council was the reputation that Hydro One has across Canada in terms of its apprenticeship and training programs. It's viewed as second to none, and people are coming to us saying, "How do you do it?" We've spent a lot of time working with these other organizations but also encouraging them to do it, because part of the issue is that other utilities are looking at us and saying, "Why would we worry about setting up an apprenticeship program for power line maintainers when you've got 50 a year going through your program? We'll just steal from you." We're saying, "There aren't enough. You've got to get your programs going to make sure there's enough for everybody." That's a real problem that we've spent time on.

As Tom said, we've been working since 2002 to establish apprenticeship programs, or continue them going in our organization, for line staff, forestry staff, electricians and power maintenance staff to make sure that we've got enough. The organization and the initiatives we're working on are really going all across Canada, working at the educational level and also at the industry level to ensure that we're going to have the resources that are necessary.

1040

Ms. Smith: Great. Thank you.

Mr. Ernie Parsons (Prince Edward-Hastings): I guess my question is to Ms. Burak. We tend to be the complaint offices for the general public on a whole multitude of issues. Probably the most calls we have had have been over the CEO's salary. The public has had a great deal of difficulty understanding it. Although it's not our role as MPPs to defend it, it is nice if we can explain how the number was derived. I guess my question is, what was the process? I don't understand. Traditionally salary is calculated by comparing that position with similar positions in other industries. I roughed that through and found out that no, I don't think that's the approach that was taken because, quite frankly, the salary is the highest in Canada and even compares well with salaries in the US. So I guess my question is, can you explain to me what process the board followed to come up with the salary for the CEO?

Ms. Burak: I'm delighted to answer that question. It obviously has been a topic of media interest, and I know there have been a number of letters that have gone to MPPs from all parties, some of them copied to me. I really do appreciate this opportunity to give you the perspective of the board on this matter and to assure you that these matters are not taken lightly. A great deal of thought and consideration has gone into the subject not only of the salary for the CEO but for the senior management ranks. If I may, I'd like to begin with a bit of background because it does set the context for the processes that we used to determine the current salary.

Back when Ontario Hydro was broken up into a number of entities, all of those new companies had a number of legacy issues, a very rich pension plan, and as the new companies became established, the previous boards, in anticipation of an IPO, set very high salary levels. It became controversial back in 2002. Legislation was passed to overturn compensation decisions specifically at Hydro One. That's when I came on the scene as a board member. In fact, I chaired the human resources and public policy committee at that time, before I became chair of the board.

In response to that legislation, the board took a number of decisions relating to all of the senior managers. The base salary maxima were reduced, the short-term incentive maxima were reduced, the long-term incentive program was eliminated, the change-of-control provisions that had been in some of the senior contracts were eliminated, and the position of a chief operating officer was eliminated. As well, subsequent to all of

those decisions, the board took the position that for all new management employees a much-reduced pension plan would be more appropriate going forward. As a result, the new pension plan for management employees is approximately 25% less than what it had been.

In terms of the careful consideration and process that the board used to arrive at the actual dollars, let me explain that the board has a human resources and public policy committee, and it is that committee that determines policy and recommends that policy to the board. It recommends the actual base salary and short-term incentive programs that should be put in place for the CEO and senior managers, and it also recommends to the full board what the actual short-term incentive payouts for the CEO should be, and it's based on a performance management system that we take very seriously at the board and which is taken from the balanced scorecard that I believe was referenced in answer to question 22 of the questionnaire that was submitted to the clerk. Also, I would mention, in determining these matters, the board and committee take independent advice from external consultants to determine what is the appropriate range.

After making the changes that we did in 2002 and when it came to the salary of the CEO, we recalibrated in January 2005 what the total compensation package should be and extended Mr. Parkinson's contract to the year 2010 for two reasons: first, in recognition of the results that had been achieved on behalf of the company—a very substantial turnaround during his initial three years as CEO; and secondly, with the view to the continuity we felt was important for the company as it will face the many challenges that lie ahead.

The board made the decision to increase Mr. Parkinson's salary, getting to the nub of your question: What comparisons do we look for to come up with this? We have based the compensation package for the president and for other senior managers on a Hay system, which looks at a category that's called "all industrial." It would contain a long list of companies that would have operations and would be of a size that would be comparable to Hydro One.

The Chair: We are going quite long into the time. That's a pretty comprehensive answer to date. If other members want to come back for supplemental—

Ms. Burak: Certainly.

The Chair: I appreciate it. The official opposition, Mr. Yakabuski.

Mr. John Yakabuski (Renfrew–Nipissing–Pembroke): Thank you very much for joining us this morning. I have some questions on transmission, to start. We know how important transmission is in order to be able to deliver the power we can produce. There's been some to and fro about what power we are going to be producing in this province. Many of those decisions, I suspect, are based on what our transmission situation is as well.

You have a report here on transmission solutions 2005-14. You talk about a number of different things. For example, in the Newmarket area there have been attempted changes. Can you give us an idea of where we

are today with respect to the burgeoning demand up in that district, and whether or not we are in a position to meet goals with regard to—there's an environmental assessment that we're dealing with right now. Where are we in those situations?

Ms. Burak: On the specific question of Markham, Mr. Parkinson?

Mr. Parkinson: Sure. Since Hydro One put out the report on transmission solutions, a couple of changes have taken place which impact transmission planning. The Ontario Power Authority has been formed and now has the responsibility for integrated system planning. They plan generation and major transmission. Hydro One works very closely with the OPA on planning transmission.

On the specific instance in Newmarket, Hydro One initially proposed a transmission solution back in 2004-05, but the OPA and the Ontario Energy Board decided on an alternate solution to enhance the distribution system in the Newmarket area—in King, actually. We're going through the process of environmental assessment and approvals on that distribution station at the moment. Once those approvals are in place, we will be constructing the distribution station, and that will meet the short-term needs adequately.

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Mr. Yakabuski: What's the timetable for that?

Mr. Parkinson: I think the latest timetable is that the construction should be completed by the end of 2007.

Mr. Yakabuski: Construction should be completed by the end of 2007?

Mr. Parkinson: Of the distribution station, yes, provided all the approvals are met.

Mr. Yakabuski: Okay.

We've heard lots of talk about, for example, power agreements with the province of Manitoba, bringing that power here to Toronto from Conawapa. How far is it from Toronto to Conawapa?

Mr. Parkinson: I don't know the exact distance, but I believe it is the same distance from Toronto to Florida, so it's a long way, there's no question. It's thousands of kilometres.

Mr. Yakabuski: It's a long piece. How many First Nations communities are there between here and Conawapa?

Mr. Parkinson: A great number. I'd like to call Mike Penstone, our director of system investments, who has expert knowledge on the Manitoba line.

The Chair: For the sake of Hansard, sir, if you don't mind introducing yourself.

Mr. Mike Penstone: Certainly. My name is Mike Penstone. I'm the director of system investment for Hydro One Networks.

Mr. Yakabuski: How many First Nations communities are there between Toronto and Conawapa?

Mr. Penstone: Several dozen.

Mr. Yakabuski: Several dozen. Can we be more specific? That could go from 36 to 48 or 60.

Mr. Penstone: I don't have the exact number but it's—

Mr. Yakabuski: More than 50?

Mr. Penstone: I don't have the exact number. It's in the dozens. If you wish, we can provide the committee with that information.

Mr. Yakabuski: Where are we in progress? This has been talked about by the government since 2003. Where are we with respect to that?

Mr. Penstone: You're correct: There has been a fair amount of discussion about the potential of several amounts of power to be purchased from Manitoba. Hydro One is not involved in the specific negotiations concerning the amount or cost of those agreements. However, we support those negotiations in terms of identifying what the transmission implications would be of purchasing various amounts of power and energy from Manitoba. For example, we have provided information related to increasing our capability to purchase from Manitoba by 200 megawatts, to the implications of increasing our ability to import power from Manitoba up to 1,500 megawatts, which would be the Conawapa development.

To your previous question about the length of the transmission investment that would be required, as a minimum it would be a 1,500-kilometre line within Ontario. There have been discussions, and a number of alternatives have been proposed. None of them have been necessarily examined from a detailed engineering perspective, but the proposals all vary in terms of the routing of the transmission line from the Conawapa development essentially to Sudbury.

Mr. Yakabuski: In the context of these First Nations communities—as you say, you're not directly involved, because of course the OPA is involved, but how many communities have we actually secured agreements with in regard to bringing a transmission line through those communities? Do you know?

Mr. Penstone: We haven't undertaken detailed discussions with the First Nations in terms of achieving those agreements. We would not do so until there was an actual need and commitment to build the transmission in the first place. However, in other instances where we have built transmission recently, most notably in the Niagara region, as soon as we identify the need to construct the transmission, one of the first steps that we do is to consult with First Nations and work with them in terms of the processes that are going to be used and so forth. These processes involve archaeological examinations, courtesies in terms of what the scope of the project is, the timing of the project.

Mr. Yakabuski: We keep seeing the government holding this up as a shining example of their commitment to addressing the power situation in Ontario, and the short answer is, nothing has been done.

Ms. Burak: Mr. Yakabuski, if I may assist my colleague, I think it's important to bear in mind in many of these questions that Hydro One is the operational arm, the transmitter and the largest distributor. We're not

involved in policy matters and, as you know, we're not involved in power purchase agreements. So our role in life is to assist.

Mr. Yakabuski: We understand that, but I think you know what's going on. How does the power from Bruce station get to Toronto?

Mr. Penstone: There are several circuits that emanate from the Bruce Power facility on the Bruce Peninsula. Predominantly it's through 500 kV circuits that go between Bruce and stations that are in Milton and Woodbridge. That is sort of the direct east-west route. There are also lines that emanate from Bruce that go into southwestern Ontario, down to the London area and then across from London to Hamilton and into the greater GTA. So essentially we have a combination of high-voltage 500 1,000-volt lines and 230 1,000-volt lines that emanate from that facility.

Mr. Yakabuski: So some of that power passes through Nanticoke; is that right?

Mr. Penstone: Yes, it does. That's the southwestern route.

Mr. Yakabuski: Now, of course, we're undergoing enhancements and improvements at Bruce re refurbishment of some of the units. Are we in a position transmission-wise currently to handle that, or can we be assured that we will be by the time those improvements take place?

Mr. Parkinson: Hydro One is working with the Ontario Power Authority and the IESO and the government at the moment to look at the options for transmission in the Bruce so that when the refurbished Bruce units are fully operational, that power can flow down to the load centres in the GTA.

Mr. Yakabuski: So have we got any EA stuff that we have to go through yet?

Mr. Parkinson: There's been no final decision on the route at this stage. When there is—

Mr. Yakabuski: How do we know we can have it done in time, then, if we don't even have a decision?

Mr. Parkinson: We're working through the process to make sure that once the option is selected, we can get the approvals process and the construction done by the needed date. That's being investigated now.

Mr. Yakabuski: I'm going to pass this over to my colleague Mr. Tascona.

The Chair: Mr. Tascona, you have about two minutes.

Mr. Joseph N. Tascona (Barrie-Simcoe-Bradford): Thanks very much.

Recently in Caledonia, I understand that you faced delays in the transmission line work which you had begun. I understand that there was damage to a major transmission building. I understand that the transmission line enhancement west of Niagara was badly damaged. I have a couple of questions on the status of the project. Can you tell us how far behind you are now on the project and when you're going to be able to resume work?

Mr. Parkinson: Yes. The project in question was quite large and complex. We received the approval for that a little over a year ago. What we did was tear down the 70- or 80-year-old 115 kV line and replace that with 230 kV line. The end result of that will be that we can bring an additional 800 megawatts of power—and that's in a 26,000-megawatt system—across from New York. That's the intention behind the project. That project was on time and on budget until the incident that you're referring to.

We have approximately six weeks' work left to do on that project. Our initial intention was to bring that in for the summer peak of 2006. Obviously, we were unable to do that, but we were able to reconfigure the system and operate the system so that we could meet the record peak which occurred in August of this year. So we've got about six weeks' work left to do. I don't have a clear indication of a specific date when we can start because the negotiations around that are not in the hands of Hydro One.

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Mr. Tascona: Okay, so that leads me to the question, why aren't you pushing for an injunction so you can do the work that you need to do?

Mr. Parkinson: Because it's part of a broader discussion, and Hydro One—

Mr. Tascona: Broader discussion of who? Are you getting direction from the government on this?

Mr. Parkinson: No, we haven't had direction. It's more a matter that this matter is just part of a bigger issue. From Hydro One's perspective, we were able to get through the summer peak without that line in service, and we did that. So we're okay now until the next summer.

The Chair: Thank you very much. You're welcome to come back to that in your next 15 minutes, but your time has expired, so to the third party. Mr. Hampton, you have 15 minutes.

Mr. Hampton: I want to go back to a question I asked a little earlier. It's my understanding that Hydro One is now being monitored by the Ministry of Labour due to the high accident rate. Is that correct?

Mr. Parkinson: As I said before, we have been identified as a high-risk company. I guess from that perspective we are being monitored, but we're also working with the Ministry of Labour to more fully understand the basis for that categorization. We're confident that when we get through that process—we're hopeful that we'll be removed from that list.

Mr. Hampton: It's my understanding that earlier this year the Ministry of Labour placed Hydro One on the high-risk list of Ontario companies. In other words, the worst 2% in the province. I'm told that the reason they placed Hydro One on this list is based upon, first of all, the WSIB claim history, the claim costs and criteria like the frequency and the severity of injuries, taking into account comparisons with others in the same sector. Is that what you've been told too?

Mr. Parkinson: Yes, that was what we were initially advised, and that's what we're going back on now to try to clarify.

Mr. Hampton: Okay. The other issue I want to ask you about is—and in some of your other responses and some of the responses of your officials I think we got into this—you identified in the 2005 annual report concerns about the future of skilled technical staff. Can you give a more fulsome description of skilled technical staff? What kind of job categories are we talking about?

Mr. Parkinson: We're talking about a range of job categories right through from line maintainers, forestry technicians, professional engineers to protection and control technicians. It's virtually right across Hydro One's skilled workforce. The reason that is, as I said before, is two basic decisions. One was, for the past 10 to 15 years, not to hire within the old Ontario Hydro and in the early days of Hydro One; also, the significant voluntary retirement schemes that Ontario Hydro and then Hydro One ran in the late 1990s and early 2000s. That resulted in a very significant shortage of skilled workforce. Not today, though; I want to stress it's not a shortage of skills today or in the next couple of years. We're talking five to 10 years out. The reason the board wanted to act on that was so that when we get five to 10 years down the road, we will have a fully trained workforce. As I said before, we have some 400 apprentices in the system at the moment and we have several young university graduates, and we're working through the process of rebuilding our skills for the future. I think we're in pretty good shape because we acted in 2002, and we've been consistently working on that since.

Mr. Hampton: Is there any kind of hiring freeze in place at Hydro One?

Mr. Parkinson: No.

Mr. Hampton: So you're actively recruiting for virtually all of these professional positions?

Mr. Parkinson: As required, yes.

Mr. Hampton: I was struck by the comment that universities do not provide the kind of courses and training that Hydro One would require. Are you talking about Ontario universities? Are you saying Canadian universities?

Mr. Parkinson: Both. One of the features of this industry is that during the late 1980s and early 1990s—well, all through the 1990s—this industry was downsizing, and Ontario Hydro was no exception. As a result of that, we were not in a hiring mode and not in a training mode. So some of the courses in colleges and universities that had experienced high demand during the 1970s and 1980s had to be dropped.

We are working, though, and Hydro One has for four or five years now been working, with universities and colleges to get those curricula back in place. We've been working hard at that. So again, it's not a problem today, but it was a problem that we've acted on and we're working to resolve. We can provide more detail if you wish, but we're working hard at that.

Mr. Hampton: I think we would be interested in the detail, because certainly there are universities outside of Ontario.

Mr. Parkinson: Yes.

Mr. Hampton: I'm told, for example, that the province of Quebec devotes a significant amount of training and resources to support their hydroelectricity system in terms of turning out the kinds of professionals and the kinds of engineers that are needed.

Mr. Parkinson: Yes, that's true.

Mr. Hampton: I'm told that provinces like Manitoba and British Columbia are doing some of the same. So I'm struck by the sense that there would be this inability to hire people at this level or with this kind of training.

Mr. Parkinson: As I said, we've been working with universities and colleges to get those courses back into Ontario.

The other issue is that the requirement to replace our skilled workforce over the next five or 10 years is not exclusive to Hydro One. This is a phenomenon right across Canada and right across North America. So even though there is training happening now, and there are graduates coming out, there's also intense competition for those graduates.

The young people of today, even when they start with a company like Hydro One, aren't thinking of a 30-year career as they did before. They're quite mobile and quite willing to move around and progress by moving through different organizations. So there's a whole raft of issues at play here that were not at play 10 or 20 years ago, and we're responding to those.

Mr. Hampton: I just want to make sure I capture this accurately. Part of the issue is that the kind of skilled professional people with engineering backgrounds, systems analysis backgrounds, systems operation backgrounds are in high demand, not only in Ontario, but outside of Ontario and outside of Canada.

Mr. Parkinson: They're in high demand, and there are not many of them, that's correct.

Mr. Hampton: So it's really a matter of being an attractive employer to make sure that you capture as many of those folks as you can and don't lose them to other jurisdictions or other companies.

Mr. Parkinson: I think that's a fair comment, yes.

Mr. Hampton: Are there currently any audits being conducted at Hydro One?

Mr. Parkinson: There are always audits being conducted at Hydro One. Did you have a specific audit in mind?

Mr. Hampton: No. I'd be interested in knowing what audits are being conducted now and by whom.

Mr. Parkinson: Okay. The Provincial Auditor has just completed an audit of Hydro One. The report is not out yet. It's in the process of being reviewed by the company and by the auditors. We provided, I think, in our documentation, a comprehensive list of auditors, but we are audited by our own auditors. We also have quality assurance auditors in every couple of years. The WSIB has the ability to come in and audit Hydro One, the

Ministry of Labour and, as I said, the Provincial Auditor. So there's always a raft, and we have a full internal audit department as well, which is very active.

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Mr. Hampton: The audit by the Provincial Auditor: Can you give us some details on that?

Mr. Parkinson: No. We haven't received the final audit report yet. That has just recently been concluded. I'm expecting that that will be tabled in Parliament later this year.

Mr. Hampton: Was it an audit of the whole organization or an audit of specific aspects of the organization?

Mr. Parkinson: It was a value-for-money audit. This was the first time that Hydro One has had such an audit performed and the reason for that is that we have recently, in the past couple of years, been brought under that legislation. The auditors had the ability to look at the entire organization but, as usually occurs, they had their areas that they wanted to focus on.

Mr. Hampton: Are there any other audits being conducted by any branch of the provincial government at this time?

Mr. Parkinson: Not that I'm aware of.

Mr. Hampton: So no further WSIB audits?

Mr. Parkinson: I don't believe so.

Mr. Hampton: You don't believe so?

Mr. Parkinson: No, I don't believe so.

Mr. Hampton: Okay. And no audits by the Ministry of Finance, Management Board?

Mr. Parkinson: The Ministry of Finance does regular audits on our payments in lieu of taxes etc. They regularly do those audits.

Ms. Burak: If I may add to that, Mr. Hampton, in our submission to the committee, I see we have a five-page chart listing all of the various government entities that audit the company as well. I don't know whether Mr. Parkinson mentioned this, but we obviously have external auditors, Ernst and Young, who are constantly inside the company and providing reports for the board and for external use.

Mr. Parkinson: That's correct.

Mr. Hampton: Are there any extraordinary or unusual audits, anything unique or special or different?

Mr. Parkinson: The only one that might be special would be the North American Electric Reliability Council, NERC. They've just completed an audit of both our Ontario grid control centre up at Barrie and also the backup control facility that we have at Richview, out by the airport. That audit has recently been completed. We do have the preliminary findings and I believe that we included those findings in the material for the committee. They were very complimentary, by the way, and said that our facility in Barrie was second to none in North America, so we're very proud of that.

Mr. Hampton: The audit by the Provincial Auditor comes as a result of the expanded authority of the Provincial Auditor?

Ms. Burak: That's correct, Mr. Hampton, yes.

Mr. Hampton: Has the Provincial Auditor ever audited Hydro One in the past?

Ms. Burak: This is the first time that the Auditor General has exercised his new legislative responsibilities.

Mr. Hampton: I want to ask you a couple of other questions. There was quite a lot of controversy and some litigation regarding the dismissal of the former chief executive officer, Eleanor Clitheroe. Can you tell me, is that litigation proceeding or has that litigation been settled?

Ms. Burak: The lawsuit that the former CEO, Ms. Clitheroe, launched against the company is still ongoing.

Mr. Hampton: Have there been settlements of any elements of that lawsuit?

Ms. Burak: No, there have not.

Mr. Hampton: Are there settlement discussions under way?

Ms. Burak: I think you can appreciate, Mr. Hampton, that because this is a matter under potential litigation, I really can't comment any longer on that.

Mr. Hampton: I'm not asking you for details. I'm not asking you to make any public disclosures here about money. I'm simply asking, are there settlement discussions under way?

Ms. Burak: I'm not at liberty to comment, but I can assure you that the company has, under the supervision of the court, done everything that it can to be responsive and to settle matters.

The Chair: Mr. Hampton, you have one question in this round.

Mr. Hampton: Is this likely to go to court or is this likely to be settled?

Ms. Burak: I'm afraid I cannot answer. I don't know.

The Chair: To the government side.

Mr. Parsons: My colleagues have some questions so if I could get a quick answer on this because I'm still struggling. I know I'm not the sharpest knife in the drawer, but I still don't quite understand the process that came up with this answer.

Mr. John Milloy (Kitchener Centre): Withdraw that.

Mr. Parsons: No. I've had too many people tell me that so I now accept it.

In my limited experience, as I understand it, the Hay system involves bringing in a consulting firm named Hay or whatever, who talk to your senior people and then make a recommendation on what their compensation should be. My experience prior to coming here was that I always watched when automakers were negotiating. They compared auto workers' salaries to other auto workers' salaries, and when I was at a school board, we compared our teachers' salaries to other teachers' salaries. Can you clarify for me quickly, was actually comparing salaries ever considered? Did Hay do it, or was that not part of your process, to look at what other people doing identical jobs in the same industry are paid?

Ms. Burak: To answer your question, I believe I understand the comparison that you're trying to make and I will try to explain it this way. Companies can use a variety of compensation programs. We went with the

advice of the company Hay. We asked them, "This is the nature of the company, this is the size of the company, what would be the best comparator group? If Mr. Parkinson or VP X left the company tomorrow and we had to replace them, what would be equitable and correct compensation based on the market for these positions?" Their advice to our compensation committee and to the board is that a good comparator group is a category that they refer to as "all industrials." It would include companies in a range of sectors, including electricity, and we go from there. Within that category, they will have ranges of compensation and that's what you base it on.

Mr. Parsons: I'm still not quite satisfied, because I think Hay would probably always recommend that you use the Hay system. I have some sense that they would support that. But for every other position that I know of in the world, pay is derived by comparing to other people doing the same job. I don't know how you compare automotive to something else, but you sure can compare automotive to automotive.

I haven't got an answer that I think is going to satisfy my constituents. I'm sorry.

Ms. Burak: I've explained the process. I would add that at the end of the day the board, based on external advice and from the perspective of not only the question of what is appropriate compensation but on what basis of compensation might we have to replace people and what might be happening in the future, made the best judgment call that it could make.

I want to assure you again that we didn't take these decisions lightly. We put a great deal of effort and thought into it and we're comfortable with the decision that we've made.

Mr. Parsons: I understand your process; it's just not one I would have used.

The Chair: Mr. Parsons, are you—

Mr. Parsons: I'm finished.

The Chair: We have about 10 minutes left in this segment. Mr. Milloy?

Mr. Milloy: Yes, I was waiting.

Interjection.

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Mr. Milloy: I want to tell you about my community. I represent a riding in Waterloo region and I have a specific question, actually, picking up on some of the issues that Mr. Yakabuski talked about in terms of transmission.

My community is probably one of the fastest-growing communities in the province. One of the areas where it's booming right now is the high-tech area. We're the home of RIM, we're the home Com Dev, Open Text—and not just those three large companies but also many, many smaller start-up companies. When I meet with the high-tech sector, obviously price is always a concern when it comes to electricity, but it's secondary to reliability. Their huge concern is that as they grow and as they operate, they need a reliable source of electricity. Obviously, there is a supply side to this problem, but there's also the whole transmission issue. I'm looking for some

guidance from you on what message I should be taking back to my high-tech sector.

Ms. Burak: The company is aware of high-growth areas, and I'd ask the president to speak to the particular priority for the Waterloo-Kitchener area.

Mr. Parkinson: That's a very good question. We do have Kitchener-Waterloo as a high-growth area. We are working, as we speak, on transmission enhancements for your area. We are also moving ahead of the new integrated system plan for those enhancements. Those particular issues would normally be included in the integrated system plan. Our board has decided to move on those enhancements ahead of the integrated system plan. In fact, we made that decision at our most recent meeting, so that is going ahead. So the first message I would give is that Hydro One recognizes the levels of growth that are occurring in your region and we're doing something about it.

The second issue is that reliability is always one of our top focus areas. The money that we've spent on both transmission and distribution, as we've provided in the background information, has increased significantly in recent years and will continue to increase. We've made good progress.

The final message, though, is that customers also need to make sure that their equipment inside the fence recognizes that, by and large, the transmission/distribution system was built 50 or 60 years ago and the power quality is not always designed for the latest equipment. We work jointly with customers to make sure that their equipment and our equipment deliver the result we can. We face that issue right across the province.

Mr. Milloy: I will yield to one of my colleagues.

The Chair: Absolutely. About four and a half minutes. Ms. Smith.

Ms. Smith: We have a couple of questions to ask you, though, so say as much as you can in this little time. I want to give you an opportunity to talk about your conservation initiatives and what you're doing across the province to highlight and to emphasize and encourage conservation, and then we have another question, so if you could go quickly, please.

Mr. Parkinson: Okay. I'll give the overview answer. If you want more information, then I'm happy to bring our conservation expert.

As of the end of July this year we've spent \$8 million, which is the first tranche of our \$40 million that we've had approved and allocated to conservation. We've achieved already savings of around \$8 million kilowatt hours, and that's measurable. That's about enough for 700 homes for one year, so we're off to a very good start. We're looking at saving, in broad terms, enough electricity to power 100,000 homes by the time we've spent all of the money that we have allocated to conservation. We have a number of pilot programs out there. We look for practical solutions which will lead to sustainable behavioural change in customers, because that's really what you need if conservation is going to achieve the targets that the government has set. So we're looking at a

variety of programs and we can give you some examples if you're interested, but we're spending \$40 million this year on it.

Mrs. Mitchell: I still have another colleague who wants to get a quick question in too as our clock is ticking. I have the privilege of representing the riding of Huron-Bruce, and one of the things that has, I would say, encouraged my agricultural community like nothing in the last 10 years is the standard offer contract. What has Hydro One done to improve the implementation?

Mr. Parkinson: I have to give you some very quick history. Before the standard offer program, the number of requests for distributor generation connections was just a handful a year, so we only had one staff person allocated to that. We've now got over 400 requests in as a result of the standard offer, so there's been a huge influx. We have ramped up our resources tenfold in that area, so we have trained and hired new staff.

It's a little bit similar to Mr. Hampton's question earlier, though; the resources, the technical expertise in this area, are very scarce. There are a limited number of people, both within the company and within the province, who can do this, but we've ramped up our resources and we have about six months' work ahead of us at the moment. We've got a plan to bring that down and to work through that because we do recognize and support the importance of distributed generation.

The Chair: You still have about three and a half minutes. Mr. Gravelle.

Mr. Michael Gravelle (Thunder Bay-Superior North): Thank you very much for being here. I'm a member from northwestern Ontario, Thunder Bay-Superior North specifically. The reality in our part of the province is that we're dealing with what I think everybody defines as a crisis in the forestry sector. It certainly has been a difficult summer. It's been a difficult last year but a very difficult summer. We've had a number of companies recently announce either an indefinite shut-down or a closure. There's been some good news amidst the bad news, but essentially the issues are related to— unquestionably the high Canadian dollar has a huge impact, but there's no doubt that the cost of energy is a major factor for many of the companies.

What I'd like to ask you is if you can define what role or how Hydro One has been helpful, or have you been working with the companies to try and reduce their costs? This is a larger issue. We could discuss this at great length, and I hope to have an opportunity this afternoon as well when the forestry association is here. But if I may ask you that; if you can respond in what way you've been able to work or help to bring down energy costs for many of our forestry sector partners.

Mr. Parkinson: Why don't I try it from two levels? The first is the company level, and I won't go into detail again because we explained previously the comprehensive cost reduction and productivity improvement initiatives that we've been trying to put in place. We've been trying to very much contain any price increases that Hydro One is requesting, and our transmission

distribution rates are regulated by the Ontario Energy Board. We've just been in and had approval to increase our distribution rates. That will be about a 6% increase on the total bill and that's been approved. The Ontario Energy Board fully acknowledged the efforts that the company's made to contain our costs. Our transmission hearing is planned for the near future, so I can't comment on that.

On the specific customer interface, though: We work very closely with individual customers to identify ways that they can save money in their shop. What we do is, we offer energy efficiency audits. We've done a couple of those—and I hope that this is acknowledged this afternoon—recently in the forestry area, for example, for some of our major customers. I know one that I was reading about recently where we've identified savings in the order of 20% on their electricity costs, which will make a difference. I'm not saying it's a solution but it will make a significant difference, and then the rest is in the customers' hands. They need to make the investments within their own facilities to put those recommendations in place, but the savings are typically there if they want to go forward with that.

Mr. Gravelle: Very quickly, one of the other realities in the northwest is that we really have virtually a separate energy grid because of the cut-off in Wawa, which is in essence why we did not experience the blackout in August 2003.

Mr. Parkinson: Yes, that's correct.

Mr. Gravelle: Therefore, we have a surplus of energy which is difficult to export. There's some portion that can be exported. You won't have time to answer this question at any great length, but is it a thought on your part in terms of actually being able to use that excess energy more effectively, because here we have an excess supply in the northwest, which leads us to believe that we can argue very strongly for a regional energy pricing structure?

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Mr. Parkinson: The specific issue of regional energy pricing is actually a policy issue for the Ontario Energy Board, so it's not under Hydro One's control at all.

Mr. Gravelle: I'd love your thoughts on it, though.

Mr. Parkinson: I don't really have any thoughts on regional pricing, unfortunately. I'm serious in my answer. It's a broader policy issue, which is a matter for the OEB.

The Chair: Thank you very much, Mr. Gravelle. To the official opposition and Mr. Tascona.

Mr. Tascona: I want to return to Mr. Parkinson. From your testimony it's very clear that the Caledonia debacle has implications province-wide and is in fact threatening our power supply.

I'm looking at the 2005 annual report dealing with the Niagara reinforcement project, which we were talking about. In this report about the Niagara reinforcement project, it states, "With the urgent need and the tight timeline, teams are working closely together to make sure the project stays on target. We are confident it will be

delivered on time and on budget." The start of the construction was in 2005. This is obviously a top priority for Hydro One. What you confirmed today is that there is going to be a delay—a projected delay, I would say—of six weeks with respect to this line. The delay, from what I'm reading here today also in the Dunnville Chronicle, has to be attributable—and I think you would confirm this—to the destruction of Hydro One property. On April 20, there was removal of wooden poles, and on Victoria Day, May 22, a van drove into a Caledonia transformer. So what has happened in Caledonia has contributed to this six-week delay.

What I'd like to find out from you is, what other factors have contributed in Caledonia, in terms of destruction of Hydro One property, to this six-week projected delay? Be specific, please.

Mr. Parkinson: There was damage to our facilities in Caledonia, and that damage was repaired. All facilities within Caledonia and in that region are operating properly, and we have increased Hydro One security in those areas to reduce the probability of recurrence. So that's on the specific damage that was done to Caledonia.

On the project itself, as I said previously, we have six weeks' work left to do. We made changes to the configuration of the system so that we could get through the summer of 2006. For the information of the committee, we had a record peak of about 27,000 megawatts, which was almost a full 1,000 higher than the previous year.

Mr. Tascona: Excuse me. Is that six weeks a hard timeline?

Mr. Parkinson: Yes.

Mr. Tascona: Hard?

Mr. Parkinson: We have six weeks' work left to do. The open question, I think, is when do we—

Mr. Tascona: But if it's not met, do you have a contingency plan in place?

Mr. Parkinson: Yes, we do—

Mr. Tascona: What is that?

Mr. Parkinson: —and we will need to make the same arrangements in the system that we made in the previous year. But at this stage we'd be confident—we have six weeks' work left to do, so provided we get that six weeks' work done before next summer, we'll be okay. But if that doesn't look likely as we move forward to next summer, we'll make plans as required. But I think we will.

Mr. Tascona: You'll have to excuse me. We have time limitations and I want to be as specific as I can.

You referred previously to the broader picture as to why you haven't taken any legal action to protect your property and to ensure that the transmission line is proceeding on schedule. That broader picture has to involve the government negotiations with respect to this particular issue in Caledonia, doesn't it?

Mr. Parkinson: Yes, correct.

Mr. Tascona: And who have you been speaking with, with respect to the government, with respect to this delay and this broader picture?

Mr. Parkinson: We made the decision as a company, in consultation with all the affected parties, that we would withdraw our workforce from that project until the broader issue was resolved, and we did that.

Mr. Tascona: Who did you speak with in the government?

Mr. Parkinson: I didn't speak—I don't know who—

Mr. Tascona: Who did your corporation speak with in the government?

Mr. Parkinson: I don't know specifically who we were speaking with. I don't remember the name of the provincial negotiator, to be honest.

Mr. Tascona: To be clear, then, someone in your corporation was speaking to someone in the government about what was happening with respect to this transmission line. I accept that. But you don't know today who that was. But the discussions involved the broader picture, and the broader picture, I take it, is to resolve this dispute so you can continue on with your work. Correct?

Mr. Parkinson: The dispute is not about Hydro One continuing on with its work. That's a by-product.

Mr. Tascona: Yes, but you said to me, "Six weeks' worth needs to be done."

Mr. Parkinson: Correct.

Mr. Tascona: But you don't know when it's going to be done. You're hopeful that that work will be done by the summer of 2007. Isn't that correct?

Mr. Parkinson: That's right. My responsibility is to make sure that Hydro One knows how much work it has to do and is ready and willing and able to do that, and we are.

Mr. Tascona: Are you getting any direction from the government in terms of how to operate in this particular situation in Caledonia?

Mr. Parkinson: No.

Mr. Tascona: Are you sure?

Mr. Parkinson: Yes.

Mr. Tascona: Why are you so sure when you don't know who you spoke to in the government?

Ms. Burak: If I may—

Mr. Tascona: Mr. Parkinson? You weren't sure who you spoke to in the government's corporation. Now you're very sure you're not getting direction. I find that hard to believe, but I'll pass it off to Mr. Yakabuski.

Mr. Yakabuski: Thank you very much. I just want to clarify that there are six weeks of work left in Caledonia; it's not—

Ms. Burak: Excuse me, Chair. I just want to be sure—I heard the sequence and the exchange, and I just want to be especially clear so that Mr. Tascona understands what Mr. Parkinson said was that it was the company's decision to stop work. Subsequent to that decision, of course, we have spoken to Ministry of Energy officials and we have spoken to the native affairs secretariat. Those discussions are not in the nature of direction to the company but rather information-sharing.

The Chair: Thank you. Mr. Yakabuski, now you have about nine minutes.

Mr. Yakabuski: I just wanted to make a comment to clarify. My good friend from Thunder Bay–Superior North made a comment about how much money you're saving these people, and I wanted to make sure it was clearly understood that the people in my riding of Renfrew–Nipissing–Pembroke don't really see 55% increases in electricity prices over the last three years as saving money. I just want to make that clear.

A couple of things: I wanted to clarify one thing. The situation in Caledonia means six weeks of work left to complete the project; it is not the length of the delay. This project should have been finished at this point if there had been no other intervention. We're now looking at a situation where there's an extensive delay.

I would like to ask one question, because any time there's a delay it costs money. It's not like people go home and they start up again and there's no clock ticking, no money involved in ensuring the infrastructure that is completed is safeguarded etc. How much is this situation costing?

Mr. Parkinson: The additional cost in this situation will be minimal, because our staff has been reallocated to alternative duties. So it'll be minimal.

Mr. Yakabuski: Thank you. I want to ask you a question on a phrase that I'm sure you've heard and we hear a lot about, called "grid instability."

Mr. Parkinson: Right.

Mr. Yakabuski: In layman's terms, you have to have basically as much power being used as is being put into the system at any given time, and that's how you create the balance. Depending upon the forms of electricity you're using, you have more or less total control of some and very little control of others.

I'd like you to answer for me what creates grid instability and how much that is affected by the different sources of power we're looking at here in the province of Ontario.

Mr. Parkinson: The best person to give that answer is Mike Penstone.

Mr. Penstone: I'll do my best to try to explain this in layman's terms.

The Chair: I'm sorry; one last time. We didn't catch Mr. Parkinson's introduction.

Mr. Penstone: Mike Penstone, director of system investment.

The Chair: Thank you.

Mr. Penstone: Basically, power systems in general are planned and operated so that they're able to withstand unexpected events or failures. Unexpected events or failures happen on a regular basis. They're essentially transparent to the consumer, because the power system has been designed to be able to accommodate that failure.

"Grid instability" is a term that's used when, essentially, a power system is unable to accommodate a failure of one or more pieces of equipment. If I turn the clock back to August 2003, the blackout was an example of grid instability where a sequence of failures occurred in rapid succession such that power flows changed quickly and dramatically. As a result of those shifting power

flows, protection systems operated and large parts of the transmission system became disconnected. So grid instability is a result of a couple of factors: One is failure, and the inability of a power system to respond to that failure.

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Mr. Yakabuski: There's the big picture. Now, how much leeway and latitude do you have with regard to transmission or generation coming on and off without notice in the system before it becomes unstable?

Mr. Penstone: Hydro One does not direct the operation of the Ontario power system. That is done by—

Mr. Yakabuski: You have to ensure the security of the grid and the integrity of the grid, so you need to be able to ensure that you can keep the transmission line flowing.

Mr. Penstone: Okay, so on a real-time, minute-to-minute basis, there are prescribed limits within the Ontario power system that have to be met or followed. Those limits are defined through technical studies, and the IESO, the Independent Electricity System Operator, ensures that the system is operated to respect those limits. Those limits, again, are designed to ensure that we can withstand an unexpected failure. Hydro One's part is to make sure that its transmission system is operated and maintained so that its equipment is reliable.

Mr. Yakabuski: Okay. Thank you. On August 1—you talked about how Hydro One weathered that storm, so to speak; record power demand in the province of Ontario. I think you'll recall—certainly, where I was that day it was a breezy day, and it played a role, I am told, in ensuring that the system was maintained, because if there had not been a breeze, the additional heat on the transmission system could have caused problems. Do you agree with that, and how close were we with the temperatures we experienced that day? Without the wind, which is something we do not control—but it was a breezy day, which kept the temperature of those lines lower than it would have been without the breeze—how close were we to having potential problems that day?

Mr. Parkinson: I'd be very surprised if the breeze played a significant role in that. I think the far more significant reason that we made it through was the level of expenditure that Hydro One has put into the transmission grid in the past five years. We've had a number of detailed programs to go right through our 230,000-volt system and our 500,000-volt system and make sure that all of our key stations are in good operating condition. Where they're not, we've got plans to refurbish or rebuild them. We've also done work on all of the major lines; a major autotransformer replacement program, for example. We've spent a lot of money and put a very strong focus on the transmission grid over the past four or five years, and that is the reason that it got through.

Mr. Yakabuski: Thank you very much. Going back to the issue that Mr. Parsons raised: When Donna Cansfield was the Minister of Energy, she told the House on repeated occasions that she would be sitting down with the board; she would meet with the board and dis-

cuss the very large salary and bonus that was awarded to the CEO. That was a commitment made to the House. I'd like to know when Donna Cansfield sat down with your board to discuss that.

Ms. Burak: I can't remember the exact date, Mr. Yakabuski, but I attended a meeting with the minister, along with members of our human resources and public policy committee, while Minister Cansfield was in that portfolio.

Mr. Yakabuski: I'm sure you attended many meetings with Donna Cansfield.

Ms. Burak: I'm sorry; I meant on that topic.

Mr. Yakabuski: But was it specifically to discuss that topic and did she ask for the meeting to discuss that topic?

Ms. Burak: Yes, and we attended to address that topic.

The Chair: Thank you very much. To the third party. Mr. Hampton, you have the remaining time on the clock, which is 15 minutes.

Mr. Hampton: I go back to some things I asked about before. In the past, was it ever the policy of Hydro One to keep a log with the names of all passengers on the Hydro One helicopter?

Mr. Parkinson: I'm calling on Myles D'Arcey, the senior vice-president, customer operations.

Mr. D'Arcey: Due to the nature of our work, we tend to leapfrog crews from spot to spot. The requirement is that as the helicopter pilots pick up the crews and move from location to location, they will then call in to where they're departing from and where they're going to arrive with the number of people that are on that. Again, we don't use the names of the individuals of the crew. We could have 20, 30 people on a specific crew that was working there that the helicopter may be picking up and dropping off from time to time.

Mr. Hampton: I want to ask the very specific question again: In the past, was it the policy of Hydro One to keep a log with the names of the passengers using the Hydro One helicopter? Has it been the policy of Hydro One in the past to keep the names of those people who are passengers on the Hydro One helicopter or helicopters contracted by Hydro One?

Mr. D'Arcey: I can only state that in my 28 years with the company, and having been a passenger and working on a number of crews, it has not been a requirement or a policy that all members, all passengers, on every flight done within Hydro be recorded by name.

Mr. Hampton: Has there been any change in the policy of Hydro One with respect to recording the names of passengers on the Hydro One helicopter?

Mr. D'Arcey: Not to my recollection.

Mr. Hampton: I guess this is a question to Mr. Parkinson. Mr. Parkinson, do any members of your family ride on the Hydro One helicopter, or have any members of your family ridden on the Hydro One helicopter?

Mr. Parkinson: It would be a rare and unusual circumstance.

Mr. Hampton: Have any members of your family been transported on the Hydro One helicopter, and if so, for what business purpose?

Mr. Parkinson: Yes, to accompany me on specific corporate business.

Mr. Hampton: What kind of business would that be, where someone from your family would have to accompany you?

Mr. Parkinson: If a member of my family was with me and there was no practical alternative, that would be the only circumstance.

Mr. Hampton: Okay. I want to ask you a question that was touched on briefly by colleagues from the official opposition. I think you'd appreciate that the province's relations with aboriginal people are particularly sensitive at this time. We had the unfortunate Ipperwash events of a few years ago where an unarmed man, as the courts have ruled, was shot dead, and we have the ongoing controversy at Caledonia.

I'm told that just last year, at a meeting of upper-level management and other senior Hydro One staff regarding real estate negotiations with the Sarnia First Nation community, a senior member of management made the following comment: He complained about having to deal with those "f-ing Indians." Can you tell me, did any member of senior management of Hydro One make that kind of comment?

Mr. Parkinson: Not to my knowledge.

Mr. Hampton: I guess this is a question perhaps for Ms. Burak. If that kind of comment were made by a senior member of Hydro One management, what action would the board take?

Ms. Burak: That's a very serious matter. I cannot contemplate, knowing the senior management team as I have come to know them, any one of them countenancing, let alone speaking in, any racist manner. This would be indeed a matter that we would expect the CEO to deal with forthwith and with severity.

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Mr. Hampton: And if that didn't happen?

Ms. Burak: As the chair of the board, if it came to our attention, I would have every expectation that the CEO would deal with those matters.

Mr. Hampton: Would you feel that the board would have to investigate further?

Ms. Burak: We as a board are not responsible for the day-to-day operations of the company. We hold the CEO responsible for those matters and so we would hold the CEO responsible for doing the appropriate thing.

Mr. Hampton: Since the members of the government have raised the issue of compensation, I too want to raise the issue of compensation. I understand that your senior managers are forced to disclose publicly pay and bonus; is that correct?

Ms. Burak: That's correct, yes.

Mr. Hampton: I've got a chart in front of me that says that vice-president Nairn McQueen, since 1999—basically from the year 2000 until 2005, total compensation has gone from \$100,000 to \$398,000. To your

knowledge, is that a fair and accurate reflection of compensation increases?

Ms. Burak: In terms of Mr. McQueen, I believe he was promoted during that period, so it's likely that the largest impact in his compensation came from his promotion to more senior duties.

Mr. Hampton: My understanding, though, is that that's a 297% increase in compensation in the space of what looks like five years. Is that fair?

Ms. Burak: I don't have the particular number in front of me, but I know that he was promoted to a very senior position during that period. Perhaps Mr. Goldie can assist us.

Mr. Goldie: Sure. Tom Goldie, senior vice-president, corporate services. I think in the numbers you're looking at, the first year was a partial year. I don't think that was reflecting compensation for the full year. So the comparison in the increase of whatever percentage you gave of 298% I don't think is totally accurate.

Mr. Hampton: Actually, in Mr. McQueen's case, the figure for 1999 is not available. I'm actually looking at 2000 to 2005 and it shows an increase from \$100,000 in 2000 to \$398,000 in 2005. So the first year, I'm disregarding.

Mr. Goldie: No, I don't think—I think the first year may have been 2000.

Mr. Hampton: Okay.

Mr. Goldie: So I think that's a partial year that you're seeing there. So the movement from \$100,000 to the total number you gave is not accurate on an annual basis.

Mr. Hampton: Maybe I could ask you about Tom Goldie. In the chart I have, in 1999, total compensation was \$185,000; 2005, total compensation is \$493,000. A rough calculation says that's a 166% increase in compensation. Is that accurate?

Mr. Goldie: Yes, I would be able to comment on Tom Goldie.

Mr. Hampton: Okay. I was hoping. You should be able to.

Mr. Parkinson: It might be more appropriate, Mr. Hampton, if I comment on Tom Goldie. The most significant proportion of that increase is due to a promotion that Mr. Goldie received, I believe, in 2003, if memory serves me correctly.

Mr. Hampton: Okay.

The Chair: Mr. Hampton, I'm sorry to interrupt, but I request for members of the committee: Is the document you're quoting from the over-\$100,000 sunshine list?

Mr. Hampton: No. My understanding is that Hydro One, because it is a corporation, has to disclose these figures to organizations, yes, like the Securities Exchange Commission; is that correct?

Mr. Parkinson: Yes.

Mr. Hampton: And that's where these figures come from.

Ms. Smith: Perhaps you could just identify where the document comes from.

The Chair: Mr. Hampton, if we'd like to share the document with—

Mr. Hampton: Yes. I think I just had an indication that the figures come from disclosures that have to be made to the Securities Exchange Commission in the United States.

Ms. Smith: Again, Mr. Hampton, we're asking where the document that you were referring to came from.

Interjection.

Ms. Smith: The document. What you're looking at.

Mr. Hampton: I'm not sure of the source of the document, but I can tell you that our research sat down and looked at the numbers and confirmed the numbers from Securities Exchange Commission documents. I'm simply asking if our research is correct.

The Chair: Mr. Hampton is free to go ahead. If he wants to show that information later on, he can. Please proceed.

Mr. Hampton: Mr. Parkinson, I'm looking at your compensation in 2002, \$557,000, and your compensation in 2005, \$1,563,000. Is that accurate?

Ms. Burak: Perhaps I can speak to that issue. Again, I don't have the specific numbers before me, but in 2002, Mr. Parkinson would have been the chief operating officer. He was promoted to CEO in 2003. As I indicated to the committee earlier on in response to a question from the Liberal member Mr. Parsons, Mr. Parkinson's compensation was increased in January 2005. So both the promotion and the subsequent increases in January 2005 would have accounted for an increase, but since I don't have the specific document in front of me, I'd want to be sure I saw it and agreed with the numbers.

Mr. Hampton: Just roughly, I'd say that the salary has tripled, from about \$500,000 to \$1.5 million, in the space of three years.

Ms. Burak: The job of CEO versus chief operating officer is a very significant difference. So, yes, there would be a difference in compensation.

Mr. Hampton: The other figure I've got—and again, I want to thank the folks who've done some research. We do have other government-owned utilities in Canada. For example, BC Hydro is a government-owned utility, Manitoba Hydro, Hydro-Québec. BC Hydro has assets of about \$4.3 billion. That's about the same as Hydro One.

Ms. Burak: No, that's not correct. Our total assets are just over \$12 billion.

Mr. Hampton: Oh, I'm sorry. I'm talking about revenue. So revenue in billions for BC Hydro for 2005 was \$4.3 billion. Revenue for Hydro One was \$4.4 billion?

Ms. Burak: Again, I can't speak to British Columbia, whether you're speaking about transmission alone or transmission and generation.

Mr. Hampton: I'm just comparing the two hydro corporations. Hydro One has assets, as I understand it, of about \$11.8 billion. BC Hydro has assets of about \$12.7 billion. Hydro One has about 5,300 employees?

Ms. Burak: Fewer than 5,000 now.

Mr. Hampton: Okay. BC Hydro has 4,000 employees. The chief executive officer of BC Hydro is paid \$424,000 a year, total compensation. That compares to

Mr. Parkinson's total compensation of \$1.5 million. As I look at it, the corporations are relatively the same in terms of number of employees, in terms of revenues, in terms of assets, yet the compensation is almost four times as large.

Ms. Burak: I explained earlier to Mr. Parsons the basis on which the board established the compensation program, not only for our chief executive officer but for the other senior managers at Hydro One. I did explain that we use as the comparator group not the one or two utilities in the country that may be close to or comparable in size, but rather a broader list of comparators produced by Hay and Co. I would also say that that comparator list, which is called the "all-industrial group," is a more modest comparator than had been used previously in Hydro One.

The Chair: Mr. Hampton, you have time for one more question.

Mr. Hampton: I would think that the most direct comparator would be other publicly owned utilities in Canada. Isn't that the most clear and transparent comparison?

Ms. Burak: That would be one way of looking at it. Our committee, on reflection and thinking not only about appropriate compensation but the future attraction of staff, would want to go with a broader base, which got us to the Hay all-industrial group.

The Chair: Mr. Hampton, I'm sorry. The time has now concluded for this part of the session. I'm watching the BlackBerry clock very closely, and the time has concluded.

First, before I thank our presenters, I'll let committee members know that the Ontario Forestry Coalition presentation has indeed come together for 1 p.m. We'll have the mayor of Thunder Bay, Lynn Peterson, the mayor of Dryden, Anne Krassilowsky, and Mark Holmes. We were in flux yesterday afternoon, as folks will know. The clerk is handing out the agenda for the afternoon. We'll begin at 1 p.m. with the Ontario Forestry Coalition, AMPCO at 1:30 p.m., the Environmental Commissioner, the Society of Energy Professionals, the EDA and the OFA at 3:30 p.m.

I will also say to members that we are locking up the room, so you're welcome to leave your documents here; there are a lot of documents on the table, so you're welcome to leave them in the committee room.

Was there something else, Ms. Smith?

Ms. Smith: I just want to make sure the representatives from Hydro One have an opportunity to speak at the end again, like the others.

The Chair: Yes, absolutely. Let me say that too. The format we've been following: If you are able to maintain a presence through this afternoon, you're welcome to make some concluding remarks based on the input that the committee will hear this afternoon. There may be some outstanding issues that pop up, and we'd like to give Hydro One the opportunity to comment briefly at the conclusion of this afternoon's agenda on those issues that come forward.

To Mr. Parkinson, Ms. Burak, Mr. Goldie et al, thank you very much for your attendance here today.

Mr. Yakabuski: Mr. Chair, the officials from Hydro One: I'm glad to hear they're going to be addressing us at the end of the day. Do we get to ask any more questions of Hydro One or is that it?

The Chair: It depends on the agenda. Yesterday, we had a lot of time because of the cancellations. Today's agenda is packed, so I would expect that no, we won't have time for that, because then we'll be hitting 4 o'clock, which is the agreed-to concluding time.

Mr. Yakabuski: So we'd have to convince some of the other presenters not to show up, then?

The Chair: You can use whatever methods you want, Mr. Yakabuski.

Folks, again, thank you, Ms. Burak, Mr. Parkinson and the Hydro One team, for being here and responding to members' questions and for the notes you provided the committee. We are now recessed until 1 p.m.; back in the same committee room at 1 p.m. Thank you very much.

The committee recessed from 1202 to 1303.

The Chair: Good afternoon, folks. We are back in session for the afternoon portion of the standing committee on government agencies' review of Hydro One.

ONTARIO FORESTRY COALITION

The Chair: I'm very pleased that the Ontario Forestry Coalition has been able to join us. I know this took a lot of shifts in schedules and certainly travel time, coming from Thunder Bay and Dryden, so I'm very pleased that particularly Mayor Krassilowsky and Mayor Peterson took the time to do so, and Mark Holmes, it's always a pleasure to see you as well.

Folks, the format we follow is that we ask you to make an opening presentation of up to 15 minutes in length. The time that's left in that 15 minutes, up to a half-hour, will be divided up equally among the three caucuses for questions and answers. I invite you to go ahead and make your opening comments. The floor is yours.

Ms. Lynn Peterson: Good afternoon. Thank you for the opportunity to speak to your committee on behalf of the Ontario Forestry Coalition. I'm Lynn Peterson, the mayor of Thunder Bay, and I speak on behalf of a group representing a broad spectrum of stakeholders, including the Ontario forest industries, northern communities, labour unions, First Nations and chambers of commerce.

We came together as a coalition in June 2005 in response to the forest sector competitiveness report, the 22 recommendations that we wanted to see implemented. For the past six months we've been working on the energy side of the requirements to make the forest industry competitive in Ontario. Now we are working together to make Ontario's electricity rates and policies competitive and to maximize opportunities and minimize losses for Ontario's forestry sector. Ontario must have an affordable, competitive and reliable energy supply. At present, our electricity supply is none of the above.

High prices have been a significant factor, contributing to forest product companies' curtailing production, shutting down mills and laying off people. Since 2001, electricity prices have risen 60% in Ontario, a higher rate of increase than in any other comparable jurisdiction in Canada and the United States.

Currently, industrial electricity rates in Ontario are among the highest in North America and the highest in Canada. Ontario's total delivered electricity costs are currently at an average of about \$70 a megawatt hour, prompting Navigant Consulting Inc. to report in its assessment to the Association of Major Power Consumers of Ontario that Ontario industry—and that's all of it—is being put at a distinct and growing competitive disadvantage.

One international company that operates similar mills in both Ontario and Quebec records an enormous disparity in electricity costs between the two jurisdictions. In one year, electricity costs from operating in Ontario were \$21 million higher than in the province next door. That difference in cost can mean the difference between operating at a profit or a loss and determine whether a mill stays open or closes its doors.

In countries around the world, governments keep industrial electricity rates affordable. Less expensive electricity is a key tool for attracting investment in industry that in turn provides jobs and economic prosperity. Electricity—its cost and availability—must be looked at as an economic development and maintenance tool. Competitive electricity pricing is key to keeping this province working and particularly important to the province's forest industry and the 270,000 people directly and indirectly employed by the sector.

That's why on April 27, 2006, the Ontario Forestry Coalition unveiled to the province a straightforward two-step plan to restore electricity pricing competitiveness. Included in that plan was a kit containing some of the tools necessary to achieve the goal that would assure, for a three-year period, \$45 all-in delivered electricity to the forestry sector, and we asked for it by September 2006. The \$45 rate does not make Ontario the most competitive in Canada. To the contrary, rates in neighbouring provinces would still be lower. But the \$45 rate at least gets our industry into the ballpark and back into the game so we can maximize our opportunities and minimize our losses, and our losses have been great. So that's what this plan is all about.

It continues to be clearly stated that, with an ominously long and growing list of forest industry closures, time is absolutely, absolutely not a luxury that the forestry sector in Ontario can afford, nor can our communities wait as their primary, and sometimes only, employers close.

This is the same message of urgency we issued months earlier when the government promised electricity rate relief, first on September 29, 2005, and again on February 22, 2006, when the Premier said:

"I recognize that a stable supply of reasonably priced electricity is critical" to your industry "for long-term competitiveness.

"Forestry uses a lot of electricity—a lot more than auto or steel. And I know you are watching over every megawatt.

"The cost of electricity can be twice as much as in neighbouring Quebec and Manitoba. That means we have to work twice as hard to stay competitive.

"We will do what we need to do"—these are the Premier's words—"to assure a stable supply of energy at a reasonable price."

We've waited for action, and on July 24, 2006, we reminded the government again, this time with a report card that unfortunately gave a glaring "F" for the efforts on electricity reform.

From considerable media garnered from that July 24 press conference, I'd like to quote my colleague, NOMA president and Greenstone Mayor Michael Power, who referred to the Premier's promises of action on electricity pricing by saying, "We are many, many months down the road [and] we still have not seen the light of day on initiatives that assure stable, affordable electricity rates."

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Kenora Mayor Dave Canfield, who has seen his community decimated by mill closures, observed that Kenora has lost 500 jobs out of a workforce of 8,325. Using the MNR's own job multiplier formula, that means his region has seen 14.8% of its workforce left unemployed. If you compare that number and look at what that would mean in the city of Toronto, that's the equivalent of about 405,000 jobs. Mayor Canfield summed up the situation, saying, "These job losses are killing our communities. Our youth, our skilled workers leaving. The out-migration to economic hot spots like Alberta is draining our community and it will be very difficult if not impossible to get these people back."

I too have witnessed the devastation as the city of Thunder Bay has endured 2,500 direct job losses and the community turmoil and stress placed on our families, and that does not include the latest, which was this morning's news: "Bowater suspends" newsprint. That's another 300 jobs. Last week it was Nipigon.

Here we are, another two months almost past, and still nothing. We've heard promises that something is coming. Rumours of a regional electricity pricing plan for northern Ontario were certainly heard at last month's AMO conference in Ottawa. In the meantime, as I have said, Bowater in Thunder Bay just yesterday announced that 300 of its workers should stay home, citing high energy and fibre costs as the reason for a 15-day shutdown.

Last week of course it was Red Rock, with another 350 people unemployed and another community without jobs and fast running out of hope. Kal Pristanski, who's the reeve of Red Rock, says, "Energy prices were the final straw." It led to the closure of the mill and the devastation in his community. It's gotten to be too much.

I'd like to ask Mayor Krassilowsky to speak next.

Ms. Anne Krassilowsky: Good afternoon. As my colleague Mayor Peterson has said, this is the absolute devastation, and it's a reality. In our communities it's very real. The more jobs that are lost, the emptier our communities become. We need our government to help us. It's not impossible. It's doable and we need to get it done.

My community has lost 27% of its jobs. In Toronto, if a 27% loss occurred, that would be almost 767,984 jobs. The closure-curtailed operation at Bowater will see a 25% reduction in softwood delivery in my community alone. So it doesn't just affect one community. It's far-reaching over the whole of the region.

I know that Dryden's mill, and our main employer, is at risk, and we certainly know that electricity is a major cost component. We need the Ontario government to be working with us to solve these problems.

In response to Dow Chemical's 350-job loss last week, Premier McGuinty said he immediately mobilized government ministries to help respond to the job losses—all hands on deck. The Ontario forestry job loss is 8,000 direct jobs in Ontario; the indirect are uncountable.

We've sent a letter to the Premier, a letter that, in closing, I'd like to read to you.

"Dear Premier McGuinty:

"At the recent AMO conference, a number of the delegates from the northwest heard your Minister of Natural Resources indicate to the bear-pit session on August 15 that your government would address Ontario's uncompetitive electricity rates by implementing regional pricing for all of northern Ontario and that these changes would be coming 'sooner rather than later.'"

Nothing is nothing. Too little, too late, is still nothing.

"Premier, without action to reduce the cost of electricity to" an all-in "\$45 per megawatt hour or less further devastating forest industry mill closures are likely. As you are aware, electricity is much cheaper to produce in northern Ontario, and if your government will provide industry with competitively priced electricity, you will assist in rebuilding our economies and reversing the effects of massive job loss and declining tax base. We believe that should the province's regional pricing plan achieve the \$45 all-in delivered electricity cost (or less) for the north, a tremendous economic development tool will have been established.

"Premier, we cannot wait any longer. If this decision is not made immediately, the damage to our economy might not be repairable. Every day you wait, another mill comes closer to its closure.

"For this reason, we expect you to make an immediate announcement.

"Premier, we look forward to your speedy response.

"Yours truly,

"Michael Power

"President, Northwestern Ontario Municipal Association."

To the members of this committee: Our communities cannot wait. Government has got to take action now, and the action can't be watered down and it can't be a band-

aid approach. We have got to have competitively priced electricity and that means \$45 or less per megawatt hour all-in electricity pricing, and we've got to have the solution now. Our communities are frustrated, they're almost paralyzed in fear, the door is opening, people are walking, you know they're not going to come back and we can't afford any more mill closures and job losses. The community turmoil that is going to continue if action is not taken now is more than devastating. On behalf of the Ontario Forestry Coalition, thank you for listening, and we thank you for taking this urgent message to the government of Ontario.

The Chair: Thank you, Your Worship. That concludes the presentation.

Ms. Peterson: Your Worships.

The Chair: Your Worships, both; exactly. Thank you both for making the trip from Thunder Bay and Dryden respectively to join with the committee this morning. I know it's a long trip on short notice. Thank you for bringing the concerns of your community directly to the committee, on behalf of all committee members.

The presentation was about 12 minutes long, so that will give us just about five and a half minutes per caucus, beginning with the third party: Mr. Hampton.

Mr. Hampton: I want to thank you for coming here today on short notice. I want to thank you for repeating this message over and over again several times.

I want to share with you a document, and I'll share it with the whole committee. This is actually research done by Manitoba Hydro. Manitoba Hydro does an annual survey. What Manitoba Hydro does is they don't just look at rate; they look at the all-in cost. They actually call industrial enterprises and say, "Will you confidentially tell us what your hydro bill is for the month?" For a very large user of electricity—I'll give you an example—Bowater's mill in Thunder Bay is a very large user of electricity. The Weyerhaeuser mill in Dryden used to be a very large user of electricity before half of it was shut down and 500 jobs were put out the door. But Manitoba Hydro's figure says that for a very large user of electricity such as the Bowater mill, in Ontario a \$5-million-a-month hydro bill is not unusual. The same plant, if it were operating in Manitoba under Manitoba Hydro's rates, would pay only \$1.8 million a month. The same plant, if it were operating in BC, would pay \$2.154 million, and Hydro-Québec, \$2.631 million.

What I've heard from mill managers is they're simply saying, "Look, when I go to the corporate office and I try to argue for more investment in my mill, when I try to argue that there are things we can do, what I'm told by the corporate office is, 'Get lost. We are not investing in Ontario when hydro rates are that far out of scale.'"

My question would be, I guess to the three of you: Is that consistent with what you are hearing in your communities?

Ms. Krassilowsky: Absolutely; without a doubt. Weyerhaeuser had planned different renovations and refurbishments but it's not possible, and it's exactly the message.

Ms. Peterson: I think there's no doubt about it. That's a message that we've been bringing to the community and to the world for the last two years. That was what came out of the forest sector competitiveness study. There are 26 recommendations that are absolutely solid. The reason that that committee was even struck was there was a recognition that the forest industry in Ontario—and it looked at the forest industry, but we have to think there are other industries in this province that are in the same boat. They're not on the front line taking the hit at the moment, but they may very well be next. It's the whole issue of industry in Ontario not being competitive. If your head office is here or anywhere else, the idea of investing tens and hundreds of millions of dollars into an industry that is not competitive is just not good business sense.

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One of their biggest costs is energy. In a pulp and paper mill it's up to 30% of their bottom line. Certainly they're going to look to jurisdictions where those kinds of costs are not being incurred. They need to be investing in places where they see they can make money, and they cannot in the province of Ontario.

Mr. Mark Holmes: We have two member companies operating both in Quebec and Ontario. One member company operates mills that are almost identical on either side of the border. The difference in their electricity bills in the course of one year, in 2005, was \$21 million. That's the difference between a mill staying open or closing. If a hard decision has to be made on which mill closes, you can just about be assured where it's going to happen, and that's where it's going to cost \$21 million more to operate.

Mr. Hampton: I am told by folks who work at Hydro One and Ontario Power Generation that some of the falling water electricity that's generated in the northwest is generated at less than half a cent a kilowatt hour and that the transmission cost is not excessive. If you took the actual cost of generating electricity in northwestern Ontario and the actual cost of transmitting that electricity in northwestern Ontario, a rate in the neighbourhood of three and a half cents or four cents a kilowatt hour, delivered to the industrial complex, would not be out of line. What are you being told?

Ms. Peterson: Exactly the same, and that's what we've been telling people. The fact of the matter is, northwestern Ontario in particular has excess supply. I'm not sure that a whole lot of people understand that when there was a blackout in the city of Toronto, we were actually shutting down generation. We had excess and we couldn't get it out to help in the south. We have lots of power and at cheap rates, yet it defies any kind of sanity, in my view, that our industry would have to be closing down because of energy costs. That makes absolutely no sense. I can't connect the dots there; sorry.

The Chair: Thank you, Mr. Hampton. That concludes the time for the third party. To the government side: Mr. Gravelle.

Mr. Gravelle: Mayors Peterson and Krassilowsky, welcome. Mr. Holmes, it's good to have you here.

I think it's important for the committee members who are here to also understand, as I think they do, that the presentation by Mayors Peterson and Krassilowsky in no way overdramatizes the reality of the situation. It's extremely grim, and we are continuing to have these announcements. Mayor Peterson made reference to the Bowater temporary layoff and the Norampac issue in Red Rock last week as well, so there's no question about it.

I think it might be useful—Mr. Hampton alluded to it in a way—for all the committee members if you could explain why it is that regional energy pricing actually is a legitimate request. This is not asking for something that we shouldn't be asking for, because of the whole cost factor and because of the excess supply. I'm wondering if you could, even just briefly, explain to the committee why indeed it's a fair request, a legitimate one for us to be looking for in terms of regional energy pricing.

Ms. Peterson: From a northern perspective, the cost of generating and producing energy in northern Ontario, as I say and as Mr. Hampton has said, is less than four cents. That's \$40 a megawatt. Our industry right now is paying \$70. It makes no sense. We produce power that we can't use. We shut down generation when there are needs elsewhere because there's no way to get the energy out of northwestern Ontario into the rest of the province.

I describe it to friends who can't visualize it as like sucking a milkshake through a small straw. There is some capacity to get some down to the southern regions where it's needed, but it can't come fast enough. As a result, we have all of this left over. We know what the cost is. We watch our industries struggle and collapse, as so many of them have, and we watch our families and people go without jobs and then look and wonder why, when we're producing it at around three and a half cents a kilowatt hour. It makes no sense.

If we produce it and if it's there and available for our industry, why cannot we use that as an economic tool to keep the industry that is there healthy and to attract new industry into northern Ontario and into this province to make it a healthier economic viability in terms of the entire province? It just makes no sense.

Mr. Gravelle: That's exactly where I was hoping you'd go, because that's exactly what companies have told me as well. This would not just help the companies survive and help them reinvest and make those capital investment decisions that they are putting off, including the decision that Bowater held off on the \$2-million project, which is vital to their continued operation. They have to move forward on that.

The Ontario Forestry Coalition has been very effective. It's an extraordinary coalition, and you have been effective in terms of having the government listen to you on previous issues. Back in February, we had an announcement related to the delivered wood cost, which I think the coalition can take a great deal of credit for, but what are you hearing? The Premier was in the northwest a couple of times in the spring and spoke both times

about reviewing regional energy pricing. I know you have had some opportunities. Mayor Peterson, I'm not sure if Mayor Krassilowsky was part of that in terms of speaking to senior officials, shall we say, in the government about where we're at. What can you tell us you heard, even at AMO, this past August?

Ms. Peterson: The city of Thunder Bay had a minimum of seven meetings. It was, of course, in every discussion I had with every minister, and I continued to hear, "We are working on it. It's coming." I've heard incredibly positive and encouraging pieces, but you know what? I need it now. We needed it six months ago. We cannot wait. Every day, we have more closures, for reasons that make no sense.

Mr. Gravelle: Message strongly delivered. Thank you.

The Chair: Thank you. We appreciate it. The official opposition: Mr. Yakabuski.

Mr. Yakabuski: Thank you very much for joining us and making your presentation today. Just to maybe encapsulate what you've done here, how many jobs have been lost in the forestry industry since 2003?

Ms. Peterson: In northern Ontario?

Mr. Yakabuski: In northern Ontario.

Mr. Holmes: Eight thousand.

Mr. Yakabuski: Eight thousand.

Ms. Peterson: Direct jobs.

Mr. Yakabuski: Eight thousand direct jobs. It would seem to me that there are a number of things at play. There are regulatory issues that you have to deal with with regard to other jurisdictions, the amount of regulatory paperwork and all of that kind of stuff that we have to go through here in the province of Ontario. You've also got exchange rate issues. But your presentation today would indicate that the number one issue for your businesses up there is the price of electricity. Would that be fair?

Ms. Peterson: There were three big issues: delivered wood costs, red tape, and energy.

Mr. Yakabuski: Okay. I didn't get here for the first part of your—

Ms. Peterson: As Mr. Gravelle has indicated, we've been very successful in some of the actions. It's the energy piece. It's like a three-legged stool. Without that third piece, which is the energy piece, the stability is not there.

Mr. Yakabuski: There have been lots of promises to look at it and stuff like that and undertakings that we're going to do another study, but you're still waiting for any concrete action with regard to that issue.

Ms. Peterson: Unfortunately.

Mr. Yakabuski: Just so that people understand, when the price of electricity spikes in southern Ontario because of high demand, your people in northern Ontario are subjected to that same spike in electricity rates.

Ms. Peterson: Absolutely.

Mr. Yakabuski: Even though none of your power, relatively speaking, for the most part, is going out and none of southern Ontario power is coming in. Correct?

Ms. Peterson: It is so minimal, it's not worth talking about.

Mr. Yakabuski: Minimal. We realize we're talking minimal, but for all intents and purposes, nothing's going out, nothing's coming in. You're an isolated system up there. Your having access to cheaper power in your jurisdiction would have no effect on the supply, and/or, accordingly, the price of power shouldn't have any effect on the price of power in southern Ontario. Would we agree on that?

Ms. Peterson: We'd agree.

Mr. Yakabuski: So basically, it seems to be an issue that most fair-minded people in southern Ontario would not likely dispute that, because you might as well say you've got your own system up there, you're producing your own power at a much lower rate than most of our facilities can produce power, and we have an opportunity, again, if we can fix some of those other things you touched on—the raw fibre costs, the regulatory regime of electricity—to probably deal with many of your problems if we are able to deal with the pricing issue of electricity in northern Ontario.

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Ms. Peterson: I would agree. I also would add that northern Ontario has capacity for far more generation than is currently being utilized. I think it would be a wise decision for the government to actually look at the amount of energy that could be produced up there to supply the entire province, but that is going to take a long, long time. We don't have that time.

Mr. Yakabuski: So in the long term, we should be finding ways to export, if you want to say, that power from northern Ontario, for use everywhere in the province. It would tend to minimize your argument for regional pricing, but as you say, in the short term it's about survival and it's something that you say you need now: No more delays; the decision has to be made.

Ms. Peterson: Correct.

Mr. Yakabuski: We share that point of view.

The Chair: Thank you; I appreciate it. To the Ontario Forestry Coalition, Your Worship, both, thank you for making the trip to the committee to bring forward your serious and obvious concerns.

Ms. Peterson: Thank you for the opportunity. We really appreciate it.

The Chair: I'm glad you made the trip. I do understand there will be a report coming to the committee, through the clerk's office, to distribute to committee members. Am I right? There's some written documentation in support?

Mr. Holmes: There will be a full package delivered to the clerk within the next day.

The Chair: Outstanding. Thank you for your time.

Ms. Peterson: Thank you for yours.

ASSOCIATION OF MAJOR POWER CONSUMERS IN ONTARIO

The Chair: Folks, the next presenter is the Association of Major Power Consumers in Ontario, a.k.a. AMPCO. Welcome, Mr. White. Nice to see you again. Adam White is the president of the Association of Major Power Consumers in Ontario. He seems to be working the room like a politician. We'll see what riding he's going to be running in next time around. Mr. White, welcome to the standing committee. You've been here in attendance, so you know how this committee is operated. You're welcome to make some opening comments, up to 15 minutes in length. Any remaining time will be split evenly among the three caucuses. Sir, the floor is yours.

Mr. Adam White: Thank you, Mr. Chair and members of the committee. It's an honour and a privilege for me to talk to you today. I'm thankful that you have invited me. My comments are, I think, going to be relatively brief. I'm very interested in hearing what questions you may have, and as far as possible I'll try to answer them.

There is a slide presentation that I provided to the clerk. I hope I've made enough copies for you. I can provide that electronically subsequently, and so on.

I thought I would take the opportunity just to describe to you briefly who AMPCO is and what it is that we do. We are the Association of Major Power Consumers in Ontario. We're a not-for-profit organization that is owned by our members. We've been in existence for over 40 years. Our mission is to promote the competitiveness of Ontario industry by advocating for reliable supplies of electricity at affordable rates. We represent 56 of the largest power consumers in Ontario in forestry, chemical, mining and minerals, steel, petroleum products, cement, automotive and other manufacturing industries.

I am fond of starting presentations that I make in almost every forum with a reference to the legislative framework in which the electricity sector operates, because the structure and regulation of the electricity sector has changed a lot in recent years. It is a creature of legislation and I think it's important. So this slide speaks to the legislative framework. It's important, at least in my mind and in the minds of our members, and I would draw your attention to some of these clauses that are contained in the purpose of the Electricity Act: "adequacy, safety, sustainability and reliability"; "efficient use"; efficiency ... in the generation, transmission"; "protect the interests of consumers with respect to prices and the adequacy, reliability and quality"; and "facilitate the maintenance of a financially viable electricity industry." All of these are important, and it is the view of our organization that they do provide a comprehensive and appropriate framework within which the sector can operate and ought to be regulated.

AMPCO's interests, like any customer's interests, are to have reliable supplies at affordable prices. We don't

just look at the commodity price of power. We look at the price plus uplifts plus transmission tariffs, distribution tariffs, various kinds of levies and taxes and charges, and what we look at, at the end of the day, is the total cost of power. How much power do we need to produce our product? How much does that need to cost so that we can remain viable? You've heard from the previous deputants to your committee I think a more compelling story than I can tell you now about the potentially negative impacts of high and rising electricity costs on the competitiveness of our industries in Ontario, in particular in the north, in particular the resource-based companies that are under pressure from other factors.

In addition to prices, and consistent with the purpose of the Electricity Act, we are concerned about the adequacy, reliability and quality of electricity service. We do observe, and I think would support arguments that others will make, that the transmission infrastructure has not been adequately invested in for some time. We are deeply concerned, and some of our members are more concerned than others, about interruptions to electricity service. You may be aware of outages and power quality issues in the Sarnia-Lambton region that have cost some of my members millions and millions of dollars. A 17-second outage in one case caused a company to experience losses of \$17 million, \$20 million—something like that.

In addition to the general state of the infrastructure and the need generally to keep that infrastructure up to date and operating adequately, we do see critical needs in specific locations. As well, there are opportunities in specific locations to reduce congestion, to reduce losses on the system and to improve the flow of power and provide greater power quality and greater reliability for customers. Of course, we're interested in and supportive of investments that would seek to meet those needs in those locations.

The other thing that I am sure you will have been made aware of relates to the long lead times for investments in this kind of infrastructure. Transmission, by its nature, is linear. When you're building a generating facility, it's in one place. When you're building a transmission line it's between two places, so it has impacts and impinges on the interests of a lot of people almost by definition.

The next slide: In trying to anticipate some of the questions you might have, I thought I would give you a general picture of the electricity rates for industrials over time and the components of that. This chart that I show you on page 5 is just a compilation of some of the data that show industrial rates in Ontario since 2001. I have made the point previously and publicly that electricity was once, and for a long time, a source of competitive advantage to Ontario industry. That is not the case at the present time. I was interested to hear the previous deputant's comments about regional pricing. I think there are opportunities. There are policy opportunities and there are regulatory opportunities to reverse the trend, and obviously we are deeply interested in some of those.

The next slide is intended to put in perspective transmission costs in relation to the total cost picture for customers. You can see here, based on these numbers, which I would interpret as being indicative as opposed to absolutely true and accurate, that transmission represents about 7% of the power bill for an industrial customer. Of course it depends: It depends on how that customer uses power, it depends on their pattern of use over time, what their peak is in relation to their average and how the tariff structure works and all these kinds of things. So really I would interpret these as indicative.

What I have also shown on this slide is looking at our own members and their power consumption in an approximate way to give you a sense of scale. So the average AMPCO member spends \$27.5 million a year on the commodity and just less than \$2 million a year on transmission. Our smallest members will spend \$1.6 million on the commodity and about \$100,000 on transmission, and our largest will spend \$160 million a year or more on the commodity and as much as \$11 million on transmission. So you get a sense of the scale of things.

When I look at this and I'm assessing how to prioritize my time in serving my members' interests, it falls out fairly obviously where I should be focusing my time. It isn't to say that transmission isn't important, and that's why I'm here, and we can talk about some of those things that we think are important.

Moving to slide number 7. To be fair and to be frank, when I talk to my members these days and ask them what they think, and I have done so in preparation for this, they're happy with Hydro One: They are happy to acknowledge that there's been significant improvement overall in the operations of that company; they think that that company is better managed now than it was in the past; they think it has a more tightly focused operational strategy, and that is obvious. It is a company that is not trying to do a number of things it was previously trying to do. You will have heard probably in much greater detail from the chair and CEO of the company what their operational focus is.

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From a financial perspective, the company is performing. It's paying dividends, it's paying a return to the shareholder and to the citizens of Ontario, and this is what we would expect from them. I wasn't able to attend this morning but I am informed that when they surveyed large customers, many of whom are my members, the overall results in terms of customer satisfaction were positive, and increasingly positive.

That being said, we do have some issues. We've been talking to Hydro One about this and I'm very pleased with the reception that this kind of input gets when I talk to the folks at Hydro One. We are anticipating that Hydro One will be developing an application to the OEB for transmission rates sometime this fall, and there are a couple of things we're looking for in that application. We are seeking changes in the tariff structure that will better encourage industrial customers and business customers to manage their electricity demand, in particular to shift

consumption away from peak to off-peak periods. The tariff structure as it currently exists and has been in place now for a number of years goes part of the way; it can be improved. So we're looking for those improvements.

In respect of the capital program—and I have acknowledged that we support investment in the infrastructure. But at the same time there is a lot of money being talked about in terms of what is going to be spent or what potentially could be spent on transmission. We are talking billions and billions of dollars, as I understand it. So what we are looking for from Hydro One and from the various regulatory agencies that are engaged in this exercise is some clarity on planning laws and responsibilities: Who makes what decision at what level of detail; who develops the business case for what investments need to be made, and what does that business case look like; what are the priority projects; and if we're going to spend a lot more money than customers can afford all at once or that the company can deliver all at once, what are those projects that are going to get built first and soonest? The long lead times in the biggest projects: Some of those might be the ones we need to get started on first just because they're going to take the longest period of time.

It's not clear to us how this is all going to play out. The Ontario Power Authority is yet, to my mind, still in the early days at least in terms of producing the level of detail that they have been able to show to us. We haven't yet seen the rate application from Hydro One. I expect that when we do, it will have a capital spending component to it and we'll take a very close look at that. We are very interested in a process that's been under way at the Ontario Energy Board related to generic filing guidelines for transmission and distribution projects, which I think is critically important. The more comprehensive and the more sound the methodology behind those filing guidelines, the more we can be comfortable that we're going to get the evidence we need to see before the board and that the right decisions are going to be taken at the right time.

Ultimately, we're business people. If a case can be made that the benefits of investment exceed the cost, then we're going to be supportive of it. If it's a good business decision, then it's something we're going to support. If we're not persuaded it's a good business decision, it's going to be difficult for us to support it, and that's just common sense.

We are interested as well in performance benchmarking. I am sympathetic to Hydro One, at least the way they have described themselves to me, as they are not like other distribution and transmission companies in Ontario. It's true; they're not. Their customers and the geographic dispersion and so on of their customers is quite different from the others. But what we would like to look at in the course of their business over time is some benchmarking, not only against their past performance but against their peer group and against other kinds of transmission/distribution companies elsewhere. The question really comes down to, are we getting value for

money; are the performance expectations that they're setting for themselves and that we're holding them to appropriate and so on? I think again common sense.

Those are my comments. I hope that's useful to you. I'm very interested to hear what kinds of questions you might have.

The Chair: Absolutely. Mr. White, thank you very much for your opening comments. That leaves about five minutes per caucus, beginning with the government side. Mr. Parsons.

Mr. Parsons: Thank you for being with us, Mr. White.

You have 56 members. Do you have a sense, in terms of electricity consumption in Ontario, what percentage those 56 together would—are they using 10% of our electricity or 60%?

Mr. White: Based on the data I have from 2004, which is the most recent comprehensive data I have, our members consumed about 14% of total primary electricity demand in Ontario.

Mr. Parsons: I don't know if it's possible to answer this, but if you had to prioritize, which is more important for your members: reliability or price?

Mr. White: It depends. If you're running an ethylene cracker and electricity is a relatively small part of your operating costs, reliability is paramount. If you're operating a scrap steel smelter and a rolling mill, you can tolerate interruptions. What that kind of company is looking for is the total cost of power. Even within the mining sector, there are key differences. There are open pit mines where the consumption of electricity mostly relates to grinding and crushing. They can tolerate outages. But if you've got people underground and you're using power for pumping, ventilation, lighting and to evacuate them to the surface, power outages make you extremely nervous. So it depends. I would say, over time, though, given that we by and large have a reliable system, the priority for me in my role as the president of AMPCO is the total price of power.

Mr. Parsons: I have a sense, not substantiated by data, that a number of the large industries in Ontario are in Ontario because of our electricity system, which has traditionally been reliable and competitive. Is that still the case?

Mr. White: Well, the ones we have here I think are here because of the way it used to be. I'm not sure that the current state of our electricity sector is attracting much new investment here unless it's in the electricity sector.

Mr. Parsons: I had the pleasure of serving on the select committee on alternative fuels three or four years ago now. We talked to representatives from large industries at that time who were actively considering co-generation, saying, "We want to have a backup that ensures reliability, and then maybe we can sell some electricity into the grid and actually make some money on it." Has that unfolded? Is it happening?

Mr. White: There is some potential for that. My view—I'm not an expert—is that it's rather limited.

Some years ago, when natural gas was trading at \$2 per BTU, I think that was a much more viable option than it is now with natural gas. If you look at NYMEX, natural gas is trading at about US\$10.

The thing about cogen.: First of all, it is inevitably non-core business for my members. We're in the steel business, the chemical business, the pulp and paper business; we're not in the power business. Some of our members have been operating cogen. for years in one way or another. The pulp and paper and forestry sectors are good examples; so is the chemical sector. I spent some years working with TransAlta and we developed a cogeneration project in Sarnia. That's a very good example because those companies need process heat, high-pressure steam, and they need power and enhanced reliability. That TransAlta project was an ideal fit for that. But when gas prices are expensive, as they have been and look to continue to be, then the viability of that project from a merchant electricity perspective is really in question. Because these are non-core types of investments, they tend to be expensive and complicated. If the economics aren't there, I'm not sure we're going to see much investment there.

The Chair: We have time for one last question, if you want, Mr. Parsons.

Mr. Parsons: Your association represents a very significant portion of the electricity market in Ontario. I get the sense, which you reaffirmed today, that by and large your industries are quite happy with Hydro. Just between you and I—no one else needs to know—

Mr. Yakabuski: Shut those recorders off.

Mr. Parsons: That's right. Are there things that could happen where Hydro could serve you better—either more regular contact or whatever? Is there room for some improvement, recognizing that things seem pretty good now?

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Mr. White: I suppose. I don't remember the exact number, but I think that the recent large customer satisfaction survey said that total customer satisfaction was around 90%. So there's clearly room for improvement. We could get it to 100%.

If there is one issue that has been brought to my attention over time—and it doesn't have to do, I don't think, with the management or operation of the company: We have members in the north who tend to be fairly remotely located. One example I would think of would be Marathon pulp and paper in Marathon. They're at the end of quite a long radial line, and the risk and probability of outages and time to restore power to a customer like that is proportional to the length of the line. For those folks, they do feel vulnerable because if a tree falls on the line or lightning strikes it, they lose power, they go down, they can't operate and then it takes some time to get back. I would be very interested in talking to Hydro One about how we meet the needs of the most vulnerable customers. That town of Marathon depends highly on that pulp and paper mill. You've heard from the previous group here how vulnerable that industry is, generally

speaking. Is there something we can do? Are there investments that can be made that will reduce the risk of outages and improve restoration times? I would be interested in that.

The Chair: To the official opposition: Mr. Yakabuski.

Mr. Yakabuski: Thank you very much for joining us today, Adam. I was going to say, if you had given an answer that there's no more room for improvement, I would have moved that we shut down these hearings immediately. I think we can always find room for improvement, of course.

You talked about the importance of security of supply and also of price. I know your members were pretty concerned over the last couple of years with the government's initiative with regard to shutting down a large portion of our supply. Now that they have backtracked on that, would you say that the feeling among your members has improved with regard to a sense that the electricity that they need will have a greater likelihood of being there as we go forward?

Mr. White: I think it's important to acknowledge that the government always said they wouldn't do anything to jeopardize the reliability of supplies to Ontario. So we were never seriously concerned that generation that was needed was going to be shut down before replacement power was in place. What we're concerned about is the price of power over time. I'm very respectful that public policy is made in a social context, and it is up to Ontarians to choose what they want and for their government to put those choices into policy.

There are obvious benefits to reducing the use of coal as a source of electricity generation. What we took pains to investigate were some of the costs of making that decision in a way that was potentially too hasty or perhaps not fully thought through. So we did, this spring, as you suggest, express our concerns about what the economic implications were of policy choices around the electricity sector. Supply mix is key. Whether we are happier now or not, I don't know for sure. I think one would want to talk to individuals in the sector. Personally, I am not less anxious about the prospects for Ontario's industrial economy than I was a year ago.

The chairman of my board is to be laid off at the end of September from his company, which is Bowater in Thunder Bay. We saw in the paper yesterday that 320 jobs are going to be lost while those paper machines are idled for a period of time. We heard from the previous panellists how many jobs in total have been lost over the past few years in the forestry sector. My membership numbers are down over last year and down over the year before, and there's all sorts of uncertainty. I was speaking with one of my members who until recently worked for Falconbridge and now works for a different company, and the same is happening at Inco and at Dofasco. Meanwhile, the cost pressures for industry in Ontario are not really subsiding: interest rates are up, the exchange rate is up, electricity costs are up, the cost of delivered fibre—all of these kinds of things. The pressures are there just as much as before. So I think we still have

some serious concern about the role that the electricity sector plays in promoting the competitiveness of our industrial economy.

The Chair: There's time for one last question.

Mr. Yakubuski: Mind you, the costs that you had indicated significant concerns about, should they have proceeded with their plan, were never manifested because none of that has actually happened. My question would be, because you made that statement: When the Premier made the statement that he would be shutting down coal-fired generation in the province of Ontario by 2007 come hell or high water, did you simply not believe him?

Mr. White: You're putting me in a difficult position.

Mr. Yakubuski: I certainly am.

Mr. White: I'm not a politician.

Mr. Yakubuski: Oh, I don't know about that.

Mr. White: In all honesty, it's not always clear to me what motivates political decisions. What I am concerned about, at root, is the policy, the structure, the regulation of the electricity sector in Ontario: Does it or does it not promote the economic competitiveness of the province? If I were to wear the Premier's shoes for a day, I wouldn't be so worried about the technical details of electricity regulation. I'm more interested in the overall competitiveness of Ontario as a viable entity. Electricity is an input to that. I do worry that there's a lot of theorizing about the appropriate way to regulate electricity and I worry that we could kill the goose that has laid the golden egg.

I've been doing this long enough that I have worked for and with a number of governments. We have to pay attention to what it is that we do and pay attention to trying to keep our businesses viable.

The Chair: To the third party: Mr. Hampton.

Mr. Hampton: I'm particularly interested in the comment you make on page 8 of your submission: "Transmission rates: Seeking changes in the tariff structure to encourage demand management and peak load shifting." I'm asking if you can elaborate on that.

Mr. White: This gets detailed quickly. I'm not sure whether Hydro One spoke to you about that this morning. I'll give you my perspective and I hope you won't hold me to it because it might not be accurate. The way that the OEB regulates Hydro One and the way that Hydro One seeks to be regulated is that they look at the assets they have and divide those up into various pools. So there's the network pool, which is the backbone, the sort of 400-series, to use the highway analogy. Then there are line connection assets—for example, the line that would connect Marathon might be one of those assets. Then there are transformation assets: When you step down from transmission voltage to a lower voltage to a lower voltage and finally bring it in the plant gate so that it can run the motors and so on.

Mr. Hampton: Transformer assets.

Mr. White: Exactly, transformation assets. There are these different pools of assets, for each one of which there is a different approach to how the cost of those

assets are recovered. Ultimately, it's Hydro One's objective to earn a fair return on all of those assets and to have some kind of certainty. The charge that a customer would see depends on which of those assets they take power from and it also depends on what their peak demand is, because a component of the tariff is based on demand, and then part of it is based on how much volume they use within a given period of time, because some of the tariff is based on energy consumption.

The way that it works now, on the demand side, is that a fairly large fraction of the charges are based on either your peak demand at the time of system peak or your peak demand that is non-coincident with the time of system peak. The point of that, as I recall, is to give Hydro One some revenue certainty. If all of your transmission or a good portion of your transmission charges are based on your demand at the time of system peak and you avoid the peak, Hydro One may be in a position where they can't recover any revenue from you. But at the same time, we need to build the transmission system to manage peak system demand. If you're not contributing to that peak system demand and in fact if you're doing exactly what government policy wants you to do these days, which is to manage your consumption so as to reduce the stress on the system during those peak periods, then we think there should be a clear reward for doing that and a clear incentive for industrials to do that.

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So it's a question of juggling how much of the demand charge on how much of the assets is on coincident versus non-coincident, and so on. There's no silver bullet here for us. This isn't going to reverse the fortunes of the forest industry—it's not. But for some members of mine who are able to manage their demand, there is value in this kind of a change for them. I'm hopeful, given the change in political context around demand management conservation from the time these charges were first put in place, that we can tilt the balance a little bit more in favour of promoting conservation.

Mr. Hampton: I've actually been in a paper mill, say, in the month of June or July when the temperature starts to rise in southern Ontario. A paper mill will typically have a graph showing you the cost of power in that 15-minute interval. As they watch the cost of electricity, the all-in cost—generation, uplift charges, transmission, everything—the paper mill starts shutting down operations. They just shut one machine down after another. What I've heard from paper mill managers is, they're saying, "Look, we're doing the responsible thing. We're doing the responsible thing financially, because if we didn't shut down we'd go broke." Corporate headquarters, whether corporate headquarters is in Tacoma, Washington, or in Montreal, would say, "We're just going to shut you down permanently if you don't make those adjustments." But they're saying, "Look, we're also doing the responsible thing in terms of Ontario's electricity usage. We're trying to lower our usage of not only the generating assets but the transmission system at a time when the system is stretched, but we get no

compensation, or very little compensation—no recognition of that in the rate structure.”

Is that the nub of the issue for a lot of your members, or some of your members?

Mr. White: First of all, to put it in perspective, transmission costs are about 7% of the total, so if we can make an adjustment, a marginal adjustment that improves marginally the incentives for conservation in the transmission tariff structure, that’s a good thing, by and large.

I think you raise an interesting point. There is, it seems to me, in the broader public and policy debate about conservation this idea that it is a completely positive thing when we conserve. I have a slightly different perspective on that. When you have a paper mill that is curtailing production because of electricity prices, the assets and capital stock of that operation are completely non-productive in terms of contributing to the gross domestic product and the wealth of Ontario. Yes, in moral terms it’s the right thing to do, in financial terms it’s the right thing to do, but in the big picture, if you’re trying to promote Ontario as an economic entity, I’m not sure it’s the right thing to do. I think what we’d want to do is keep those assets operating, keep those assets productive and keep those people employed.

There’s been a lot of debate—very complicated, very technical, very theoretical, very mystifying—and not very many people in Ontario care very much about it, about how we structure and regulate the electricity sector. I think we’ve lost sight of the prize in Ontario, and I think we have to get back to basics. What’s it for? What do we do with it? What’s the value-added we can create with power? If we can get it at a price that’s affordable, that’s stable and predictable, if we can get the right level of reliability, we can build an industrial economy on that. But if we get the structure and regulation of the electricity sector wrong, we could lose that economy.

That capital stock that Bowater is idling is dead-weight loss for Ontario. Forget about the financial decision that Bowater itself makes. For Ontario, if you look at our industrial economy, that’s a dead-weight loss. I think we’ve got to figure out how to get those assets that have all sorts of economic viability and life left in them back to work.

The Chair: Thank you, Mr. White. We’ll have to leave it at that point. That concludes our time together. Mr. White, good seeing you again. Thanks for your presentation and response to members’ questions.

Mr. White: Thank you very much.

ENVIRONMENTAL COMMISSIONER OF ONTARIO

The Chair: We will now turn to our third deputation. This is the Environmental Commissioner, Gord Miller. Look at that. Already in place like a veteran before these committees.

Mr. Gord Miller: Yes, I’ve got some experience there.

The Chair: Exactly. Welcome back to the standing committee on government agencies; today, Hydro One.

Mr. Miller: Thank you very much again for having me and allowing me to contribute to this discussion. It’s a new opportunity for the Environmental Commissioner’s office and for the commissioner, and it’s greatly appreciated. I hope the following comments have some value for you. Certainly, it’ll be somewhat different from, I imagine, a lot of the deputations that you’ve heard today, because I of course have the environmental focus.

In preparing for this, I really thought long and hard about what I should bring forward today, and it comes down to just three major points. The first two are fairly specific, and the third one really incorporates aspects of the first two points and takes us into a broader scheme of things. Then, I have, at the end, just a few suggestions in terms of what this means or what it might mean in terms of your deliberations on Hydro One. So that’s the overview.

The first issue I want to talk about is climate change. Allow me for a minute just to explain. This is a message that is much broader, of course, in Hydro One, and that is that we’re talking about adaptation to climate change. There’s been a lot of debate in the last few years about climate change, whether it exists, and whether Kyoto is the right solution to mitigate it and everything. Notwithstanding whether we can attempt to mitigate climate change or do anything to reduce our greenhouse gas emissions, the reality is that climate change is occurring on this globe, in this country and in this province. It is affecting things from day to day and I’m very seriously worried that in the big scheme of things, because we’ve been fighting so much about whether or not we should mitigate and the cost of mitigation, we’ve neglected to look at the impact that is occurring now and will continue to impact on climate change.

With respect to Hydro One, I want to point to some of the factors that are coming forward and that are happening right now: things like infrastructure damage. These are the outages, the loss-of-service outages caused by severe storms in just the last year in Ontario. As you can see, the numbers are quite staggering: hundreds of thousands of people, and businesses and industrial operations, losing their power for prolonged periods. These are all severe storms.

We didn’t have these kinds of outages. Most of us in this room have been around the province long enough to know that this is not a historical pattern that occurs every year. We count on Hydro One for reliability over all our lifespan, tens of decades, and yet we’re seeing these kinds of outages just with regular windstorms and storms that are occurring. This does not include any special ice storms like we had a few years ago or the kind of weather incidents that we can reasonably expect to occur under the current climate change expectations. Neither does it include the prospects of fire damage to northern Ontario’s transmission lines. We have been very lucky in terms of fire events. The climate is warming. We’ve been getting good fire suppression activity by the MNR, but

sooner or later it's going to catch up to us and we have a tremendous risk to infrastructure.

Also, climate change creates a certain risk with respect to our hydro resources. We rely on our hydro resources in northern Ontario extensively right now. They've saved our collective butts on more than one occasion here in recent years, but what if we get a severe drought? Not only will you get the fire; you'll get the loss of hydro-electricity capacity. These are things that we should be planning for, building in and anticipating.

Finally, something else that is occurring is the change in the nature and location of the demand. Buying air conditioners in my town of North Bay is big business these days. People didn't used to have central air conditioning in northern Ontario. Why is that? Well, for some of us, it's because we're a little bit pressed, a little bit more affluent, but the fact is, people are responding in a much greater sense to the demand and that's changing the electrical load demands and will continue to do so.

Similarly, winter patterns will change, maybe in that case for the better. My point is that, somewhere in the scheme of Hydro One, adaptation to climate change has to be on the table, has to be discussed, and I just don't see it.

I want to go to the second point. This is a little more specific. I want to talk about access to the hydro grid for renewable generators. There are a number of issues, and I've had certainly a number of complaints in my office relating to this whole topic.

Just a couple of background points: One is, remember that renewable sources are location-constrained, and that is that things like wind power can only be done in certain areas. Water is where there's hydroelectricity capacity available. Biogas is available where there's livestock or whatever, and landfills are landfills. So it's location-constrained. We can't just put it anywhere.

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We have, in Ontario, lots of good opportunities for renewable energy, but there is no transmission access because our system wasn't built to serve that kind of thing. That's the sort of reality that we're facing. Repeatedly we're getting into this situation in Ontario where people want to come forward with renewable energy opportunities, but how we get this capacity connected to the grid is the question. Is it a generator charge? Do we charge the people who want to get on the grid? Or do we apply some kind of system charge and say we're improving the system, so we'll do it in a collective sense? Right now we take the whole cost and we put it on a generator, so if you're a small renewable generator and you're in a cost-competitive environment, you're trying to get something started up, the first thing you face is this tremendous cost of attaching to the grid. Once you've attached to the grid, say you pay for five or six or seven kilometres of line, what if your competitor wants to come on next door once you've surrendered those lines to Hydro One? So there are questions about who should be paying for accessing these renewable

opportunities. Certainly it's a strong disincentive to dump it all back on the generator.

I would put forward that, like a transportation system, like a road system, we need our hydroelectric grid system to maximize the opportunities to renewable fuels, for renewable energy generators, for the long-term good of the public. There's an element of public good, I think, that is very critical that is presently absent from the system.

That brings me to a more general and philosophical discussion that actually brings in the first two points to some degree. It's interesting—it's 2006—because exactly 30 years ago there was a very profound paper published by Amory Lovins, very influential in the policy world, about energy grids and energy supplies. He talked about two kinds of energy systems, ones that rely on centralized, large-scale, capital-intensive technologies, and he called these hard-path systems; and other systems you can design that pursue conservation, small-scale distributed generation, renewable energy applications, and he called those soft-path situations. What we have in Ontario is a hard-path system. It's inflexible and it's prone to disruption, as per my previous slides and as per discussions we just heard about the sensitivity to the slightest disruption because we have central generation and a rigid system.

Obviously we're not going to change that overnight, but I think going forward, the 21st century demands a different kind of grid than we have now: one that is softer and smarter, one that lowers resistance, one that slows energy, one that shaves peaks—technologies that are available or are proposed that can make these things happen. But the challenge as I see it with Hydro One is that there really is no mechanism of change. There's no advocate or no voice for soft-path ideas. We're not talking about these things. We're not building forward and looking at those opportunities. The Hydro One structure, the Hydro One policy decision-making, is very much committed to the hard-path, traditional 20th century system. I think that is something this committee should be attentive to and consider. There should be a voice so we can accommodate the changes in technology.

Mr. Chairman, I'll sum up my suggestions to be three: (1) Hydro One needs a strategy for adapting to climate change to increase the reliability of the system and proactively anticipate and head off future problems; (2) upgrades to the transmission systems that facilitate renewable access should be incented by system charges, not penalized by generator hook-up charges; and (3) we need a mechanism to help Hydro One make the grid softer and smarter going forward into the 21st century. Thank you.

The Chair: Thank you, Mr. Commissioner. I appreciate your leaving some extra time for committee members to ask their questions and get answers. We're going to start with the official opposition and we have just over six minutes each.

Mr. Yakabuski: I did make some notes while you were doing your presentation. Can you give us some

examples—we have a little time here—other than generalizations, of what you would consider we would be doing to make this a softer-path system?

Mr. Miller: One of the things that is widely talked about—take somebody like Geoffrey Ballard. You know Ballard Power Systems, which are fuel cell systems. He envisages and advocates a system where you have distributed generation run by fuel cells throughout the whole system. In fact, as we move cars or vehicles into fuel cells, you plug them in and you could be generating power throughout the grid that feeds into the grid. Through a wide range of fuel cell applications, you can be taking power down during low-demand periods of time, generating hydrogen by electrolysis and feeding that hydrogen back into a fuel cell at high-demand times. Even though there's a three-to-one loss of efficiency—in other words, for every unit of electricity you only get one third back—often the cost of electricity is more than 10 times higher at peak load, so you can feed back in. You do that out there and distribute it. So it softens the system because, instead of having a few big nuke plants and coal-fired generators etc.—of course you have those; they exist. But in addition, you have these localized fuel cells throughout: in apartment buildings, in various things, distributed widely through the system which can feed back in, soften the system and make it resilient.

Mr. Yakabuski: Transmission from generators: As I understand it, right now, if you're initiating a power supply project, whatever your location choice may be, you'll have to pay for all of the transmission costs to get that into the grid that currently exists.

Mr. Miller: Essentially, yes. And you have to do it to Hydro One's standards, which may not be, in the view certainly expressed to me by some of these people in the situation, the cheapest way to do it effectively and safely. It has to be done to those standards at those costs. So it's quite a problem.

It also creates a lot of uncertainty. When you're planning for a renewable generation facility, say a wind situation or a small hydro situation, if you don't have a really good handle on how much it's going to cost you to hook up to the grid and what the terms are in advance, you'll struggle with that in your business plan.

Mr. Yakabuski: For the most part, if people are concerned about dollars at all, which they are, it would limit any new developments within some kind of proximity to our 500, 230 or 115 kV lines.

Mr. Miller: Yes. Classically here we're talking—well, I think it's all three—wind farms, which are not anywhere near the major transmission facilities and best locations for wind. The big hydroelectric developments: Obviously, OPG and others go after those big ones in northern Ontario, but there are a lot of smaller ones that private interests may pursue. But again, the line costs may be the determining factor to make it non-viable for them.

Mr. Yakabuski: You talked about climate change and you've probably done some research, then, as to some numbers. I'm not going to ask you them, but perhaps if

you do have some numbers with regard to temperature changes over the last 50 years or something, we could have that from your office.

One last question: The OPA has submitted an integrated power system plan through to 2025. It doesn't sound much like something that you would be overly positive about, based on your submission today. Give me a quantitative evaluation of that on a scale of one to 10, and as to whether in your opinion those numbers they're putting out are achievable or not.

Mr. Miller: You're right, you do ask hard political questions today. First of all, in terms of the OPA plan, I think it's achievable. There are cost factors, and whether it's the right direction; I heard lots of discussion around that. I don't think there's anything that's unachievable in it. But in light of what I presented today, I think there's a lot of room for improvement in softening up the grid, distributing generation and providing for even a higher proportion of renewable energy. I think there's a tremendous potential in the Ontario economy to increase efficiency, increase conservation, but also increase renewable generation if you open it up and let them use the ingenuity of the distributive Ontario economy to do that. Give the people the access and the opportunity, and I think there's a huge amount of energy available for us to save or to generate that the present system is just too rigid to allow easily.

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The Chair: Thank you very much, Mr. Yakabuski. To the third party, Mr. Hampton.

Mr. Hampton: I want to be clear on what you're saying here. We've seen a few wind farms that are now up and, as I understand it, producing or about to produce electricity and we'll see, depending upon the frequency and consistency of the wind, what generation occurs. Are you saying that some of that wind capacity is going to be stranded because the generation is not there to handle it?

Mr. Miller: You mean the transmission is not there to handle it?

Mr. Hampton: The transmission is not there to handle it.

Mr. Miller: Yes. Presently my analysis suggests that wind capacity in Ontario is much, much larger than we've taken advantage of right now. There is a lot of remote-from-transmission-lines capacity. There are other issues, by the way, in terms of wind capacity, I recognize. But nonetheless, just talking in those terms, along Georgian Bay, for instance, there's a tremendous amount of wind capacity a long way from transmission lines.

There are two issues: access to a transmission line in terms of distance, and continued access on that transmission line in terms of the capacity to carry electricity, but they're two sides to the same coin.

Yes, there is presently wind-stranded hydro. In the future, going forward, we could stimulate, I think, a bigger biogas industry in rural Ontario and help a lot of our farmers if we made a mechanism that was friendly to them to get that power to market. Right now, much of the

farmland hasn't got the transmission capacity to pick that up even if they could produce the biogas energy.

Mr. Hampton: Just so I'm clear, what you're saying is that we have potential that is stranded.

Mr. Miller: Yes. Well, we have resources and opportunities that remain undeveloped and will remain undeveloped unless we decide it's in the public good to access them for reasons of public policy and provide those opportunities.

Mr. Hampton: But you're not saying that there's installed capacity.

Mr. Miller: No, not at all. In fact, if you look at the installed capacity, the successful installed capacity is driven by access, if you like. Much of the influences—yes, they have to have the wind, for instance, true, but look where it is. It's by the big power lines, where they can get access.

Mr. Hampton: Have you seen any analyses of what it would cost—I realize you've focused here on who should pay to a certain extent—in terms of additional transmission lines and transmission networks—I think part of what you're talking about here is transmission networks—to access some of that unused capacity?

Mr. Miller: I don't think anybody has done those figures in an aggressive, proactive way. I've seen the wind energy association figures; I don't have their correct name. They've tackled this problem and they have a fairly productive suggestion. What they suggest is to let Hydro One pay the first \$60,000 of cost of hooking up, but make the generator pay five grand just to apply. In other words, put a deterrent on just so we don't get people putting in applications frivolously. But essentially the first whack of money, whatever that figure should be—tens of thousands of dollars—would be paid. So if you were close and you were fairly easy to get on, you'd get on cheaply; if you were much farther away and the costs were much higher, you could factor that in and say, "Well, I've only got to pay beyond the \$60,000 figure." Those people who are in that business have come up with those numbers—\$60,000 and \$5,000—as the kind of incentive they feel they need to stimulate their industry at this point. I think down the road, as we get demand for more energy and we want to go further and further afield, then we'd have to seriously look at essentially a public capital investment. That would be decades down the road, I suspect.

The Chair: Thank you, Mr. Hampton. That does conclude our time for the third party. Now to the government members, Ms. Smith.

Ms. Smith: Thank you, Mr. Miller. It's lovely to see you again this week. We don't see you enough in North Bay.

I wanted to talk about North Bay for a second and the storm, and our response to the storm. I was glad you raised it because I actually wanted to take the opportunity to thank Hydro One for all the great work they did in our communities over the storm. We certainly had a struggle and we had a lot of help from across the province. Certainly the communities around North Bay-Mattawa

and to the west of us, over to the Manitoulines, were very happy to see them.

I'm going to jump around a bit, but at one point you talked about the soft-path and hard-path approach, and you're advocating the soft-path approach. However, in my estimation, if we had had more of a soft-path approach, I'm not sure that would necessarily have changed the effect of those wind storms, because it was power lines that were coming down. Even just in our small geographic area, from one end of my riding to the other, which is West Nipissing to Mattawa, there were hundreds, thousands, of poles and lines down. If we had been on a smaller grid, for instance, as you would recommend, the lines were down anyway. I'm not sure that would have been a solution to that kind of problem.

Mr. Miller: No. When I was talking about the storm damage, the infrastructure damage, I was focusing on the climate change policy aspect. There is a margin, and if you get into a wide-scale storm with thousands of trees down, there's no question your infrastructure's down.

Ms. Smith: Right.

Mr. Miller: But if you recall, since we both live in North Bay, during the big power outage some years ago, North Bay was up and running in four hours because we do cogeneration up on the hill. So distributed generation does help to some extent, even in more major events, but not if you lose all your lines.

Ms. Smith: Maybe you're up in four hours at your end of town, but not at our end of town.

You talked about the soft approach and Hydro One's approach. We heard this morning that they are investing over \$40 million in conservation programs and really that the thrust is that sustainable conservation requires behavioural change, and that they're working towards that with this investment. Do you have any comments about the progress they've made with the \$8 million that they've already invested and their plans moving forward?

Mr. Miller: We've looked at the local distribution company aspect and the plans to incent or encourage conservation: "very positive" is your first reaction.

One small flaw I would point out to you—and I think they are well-intentioned, positive, good plans—is that it seemed to be a little short on mechanisms, a metric to measure success. We didn't see that. It may not exist in the literature we can get our hands on, but we'd sure like to know a year from now or two years from now, since all these costs are put back on to the ratepayers, that we have a way of measuring the effectiveness of these programs. That would be one caution.

Ms. Smith: With the \$8 million they've invested, they've told us that they have saved enough power to power 700 homes for one year, I believe, and their plan is to get to 100,000. That's what we heard this morning.

My colleague would like to speak to you about renewables. Before I let you go, though, I totally agree with more transmission needs to get our renewable energies from northeastern Ontario up and running and providing for the rest of the province, which we could.

Mrs. Mitchell: Thank you, Mr. Miller. I'm looking for a further expansion of what you're talking about, a soft system. As you know, I represent the riding of Huron–Bruce, and we will be bringing on about 40% to 50% of the renewables that are coming online with the province. So I look at how the standard offer contract has been received, and I asked Hydro today—and 400 contracts. The uptake is huge.

Mr. Miller: Yes.

Mrs. Mitchell: But we keep going back to the transmission: What can we do, and what is needed? So I did want you to expand on what your soft system is, but I am also looking for a further expansion—when you talk about the system and some of the renewables, it has to be brought up to a certain standard, coming onto the grid. I guess I'm a bit taken aback that there seems to be not as much support as I believe there should be when we talk about the integrity of the system and the standards. If we just apply whatever standards, I really would have some real concerns about the integrity of our system being maintained. And overall, when we talk about integrity of the system as well as our transmission, that's what will move forward renewables the fastest.

I just look for expansion on the soft, and your comments about the standards.

Mr. Miller: On the soft—and I recognize we do have this existing developed system and it's not going to change—it's a matter of softening the system or bringing these features on. Up in the Bruce is a classic case. We're going to get a lot of wind generation developed over the years, I expect, anyway, and you're going to be a point source generator all through there. There's a local significance to that. It improves reliability and the effectiveness of the distribution system. Up the Bruce, which would have been a one-way wire at one point in time and have the problems that were discussed about Marathon previously, now it's going to be much better, much more reliable. It will be feeding the economic development for that area.

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But it also means there are more points on the grid generating power at least some of the time. Say you were to couple that with fuel cells, and when they took power that was in excess and generated hydrogen by electrolysis and then fed the hydrogen into fuel cells, you could stabilize that system and you'd have a distributed power system that was much softer with much more resilience. If you lost your main feed from the south—wind can't do it for you all the time, but wind backed up with something like a storage capacity like that would substantially improve the resilience and dependability of the system.

Mrs. Mitchell: So when you're talking—

The Chair: I'm sorry, Mrs. Mitchell. I know it's a good topic, but that has concluded our time together.

Mr. Commissioner, sir, thank you very much. It's always a pleasure to see you before the standing committee. Thank you for your input both today and on Tuesday.

Mr. Miller: Thank you.

SOCIETY OF ENERGY PROFESSIONALS

The Chair: Folks, we'll now move to the Society of Energy Professionals. We have a significant list, and I'm not sure if all are going to come forward.

A couple of things to say as we begin this segment. First, just to remind those who speak to the committee, if we do have multiple speakers, please introduce yourselves and your title for the sake of Hansard so we can always attach the comments to the right individuals.

Secondly, just a word of caution for both members and those before the committee. I think to say that the relationship between Hydro One and the energy professionals has had some tension recently is an understatement, but I'm pleased that the professionals are here today to make a presentation as one of the key stakeholders when it comes to Hydro One.

Members of the committee may know that there is currently a hearing, I believe, before the Ontario Labour Relations Board with respect to unfair labour practices, and some volumes have been given out to members from the professionals with respect to that hearing. Members know—and the Chair will call to order—that they are not to prejudice those hearings in any way with their comments. I think it's important to hear and I don't want to intervene at all with what the society has to say with respect to Hydro One, but members should know that there is a case before the OLRB with respect to unfair labour practices and we don't want to prejudice that in any way by members. They will be called to order, because that is out of order under the rules of the House.

To the deputation before us, just for your own protection as well, you'll want to ensure that any statements you make will not prejudice your case before the OLRB. I think you do know that. While we know that members who are before the committee or in the assembly are protected by parliamentary privilege—there's the freedom to basically say and do as we please—it's not clear that that extends to witnesses before committees. So I wanted to let you know that it may very well be that testimony that you have given or are about to give could be used against you in a legal proceeding. I caution you to take this into consideration when making your comments. It's no surprise to you, I'm sure, but just for your own protection, that privilege does not necessarily extend to people who make presentations before a committee.

The last thing: There's some strong language at the conclusion of your presentation. Again, I'm not going to try to intervene with what you bring before the committee, but just to ensure that the decorum that we've maintained at committee today is respected—that's by all members of the committee—when we get to the stronger language at the end of the presentation.

Sorry for that intervention at the beginning, but I thought it important that we understand how to proceed in case the committee gets into any dangerous territory with respect to prejudicing any future hearings.

Folks, I'm pleased again to welcome the Society of Energy Professionals. You're welcome to make opening comments of up to 15 minutes. Any time that you leave remaining, up to half an hour, will be distributed equally among the three caucuses, beginning with Mr. Hampton on this rotation.

The last thing I'll say, and I do apologize: I need to vacate the chair at this point to get to an important constituency event, and the very lovely and talented Mr. Tascona is going to assume the duties of Chair for the remainder of the afternoon.

Mr. Parsons: I never heard those words in one sentence.

The Chair: I'm sure it's not the first time.

Folks, we will now begin the next session. Gentlemen, you have up to 15 minutes for your presentation.

Mr. Andrew Müller: Thank you, Mr. Chair. I appreciate the words of caution. I would like to say that it's with a great deal of hesitation that we come to this committee because of the very things that Mr. Hudak mentioned and also because of the nature of the things we're going to be describing in the presentation. Some of these things are shocking, they're very serious, but we feel compelled to tell them to this committee and make sure that they're on the record for the people of Ontario.

My name is Andrew Müller. I am the president of the Society of Energy Professionals. I have with me here this afternoon Trevor Ogle, who is a sector control supervisor with Hydro One. He has 31 years of experience working for both Ontario Hydro and Hydro One. He has worked throughout his career up through the operator ranks to the position he holds today, which is at the much-celebrated Ontario Grid Control Centre. I also have with me here today Dr. Hamid Riaz. He's a senior engineer with the operating assessment and technical support group at Hydro One. He has a Ph.D. in electrical engineering and has worked for Ontario Hydro and Hydro One since 1988. Prior to that, he was a professor of electrical engineering at the University of Ottawa.

These two gentlemen are fine examples of our membership in the Society of Energy Professionals. A great deal of our members have professional degrees. Many of our members have greater than 25 years of service with various companies in the electricity industry. They bring that expertise and professionalism to their everyday work.

As we appear before you today, we're at a time of crisis in the electricity industry. Our system is operating at capacity. The demands for power are significantly increasing. The demands for new connections of both customers and suppliers are also on the rise. This puts a great strain on Hydro One as a company.

Hydro One is a publicly owned agency and is responsible for delivering electricity reliably and responsibly. It's rather interesting to note that as we tried to review the mandate of Hydro One before testifying at this committee, we discovered that the mandate is essentially secret. We were led to believe that it was described in a shareholder agreement, which we requested, and it was

not provided to us. We heard this morning that it may also be described in a memorandum of understanding, which also did not appear in any research. So for a public utility not to have their mandate in a public forum is a bit of a question to begin with.

To fulfill this mandate, Hydro One needs strong leadership. It's on that that we have a number of recommendations with respect to the operation of Hydro One.

I was pleased to hear this morning that one of our recommendations may have been implemented before we even got to make it, and that is that there be a third party financial audit conducted of Hydro One. Some of the things I'll say later in the presentation will explain why we think that's necessary.

We're also recommending that the government appoint a committee to review the past management practices of Hydro One and to monitor the current management practices, including the use of contractors, to ensure that waste and poor management do not continue. I will further describe some of the concerns we have regarding management decisions later in the presentation.

We also recommend that a committee be appointed to make recommendations to Hydro One on managing the human resource shortage in the energy sector, particularly in their company, including recommendations on issues such as succession planning, recruiting, mentoring, training a skilled professional workforce and maintaining the skilled workers in whom the organization has made an investment. You talked a lot about that this morning. We'll be discussing more of that this afternoon. I think you'll hear a very different story from our perspective.

We also recommend that Hydro One be strongly encouraged and provided with the assistance necessary to restore healthy labour relations and to improve employee morale at the organization so that management and employees can return their focus to the business of planning and carrying out the safe and efficient delivery of electricity to the public.

We believe that these fundamental steps will put Hydro One back on track and focus the agency on delivering energy efficiently and cost-effectively to Ontarians. As professionals who supervise and administer the electricity system in Ontario, we want to make sure that both taxpayers and users get the best possible system for their investment.

The Society of Energy Professionals represents engineers, scientists, accountants and IT professionals who work in Canada's energy sector. As an organization, we've been around for more than 70 years. About half of our members are professional engineers. Many hold master's degrees, doctorate degrees in engineering and other related fields.

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Our union represents 7,000 employees at Hydro One, Ontario Power Generation, Bruce Power, Atomic Energy of Canada, Kinectrics, Toronto Hydro, the IESO, Nuclear Safety Solutions, New Horizon System Solutions, Vertex and the Electrical Safety Authority. Our members work

in every aspect of the electricity industry. It's from that perspective that we give these comments. Our members are highly dedicated to the work they do. As professionals, they've committed to high standards of quality and safety. They have professional ethics and they have a strong sense of public service to the people of Ontario. They bring that to work every day and they feel obligated, despite the cautions that the Chair gave us earlier, to make our concerns known to this committee, because frankly, Hydro One is owned by the people of Ontario and the people of Ontario deserve to know what's going on at Hydro One.

Because of our professional and ethical responsibilities, we've been involved in making recommendations to government committees for some time. We predicted the price instability and spiking prices that resulted from the opening of the electricity market. We also recommended that the government pursue aggressive conservation programs, expansion of renewable generation, nuclear refurbishment, nuclear new build and the need to maintain our coal-fired generation before the current realities became known to electrical consumers. Our advice is not popular, but it is responsible, professional and accurate.

Our system is strained. It's significantly strained. We've talked a lot about that this morning—about transmission lines, interconnections to Manitoba and so on. Our power lines are operating at capacity. We talked this morning about an incident where a power line would have been in greater danger if the wind hadn't been blowing. I think Trevor can speak to the effect that wind has on line capacity.

Mr. Trevor Ogle: Trevor Ogle, sector control supervisor at the Ontario Grid Control Centre. Wind speed and temperature are two of the major factors in the current carrying capacity of all transmission lines. During the summer peak period, the honourable member has mentioned that it had been a windy day and that saved their bacon somewhat and I think there's probably a lot of truth in that, because the capacity of the line increases very significantly with an increased wind speed.

Mr. Müller: This is one example of how technical the system can be and how important it is to rely on the experts who know the system and operate it.

I'd also like to point out, in his own words, that Tom Parkinson advised in a booklet entitled *Trans-Mission Critical*, which we've attached to the presentation, that, "Major transmission projects are required and we need to start now." This is not a simple task. I think we discussed that quite a bit as well this morning, but clearly it relies on the human resources that the company has available to do the work. We are facing a human resource crisis. As Mr. Parkinson pointed out this morning, he chairs the Canadian Electricity Association, which created a report in co-operation with human resources called the human resource sector study in 2004, *Keeping the Future Bright*. That was also attached to our submission. That report makes it very clear that there's a shortage of skilled and professional employees in the electricity sector and

there's a strong need to hire, train and retain those members. The report urged the companies to begin planning now to avoid a crisis in the next five years. We are facing that crisis now in Hydro One, particularly with the members that we represent.

Management at Hydro One has been operating in an Enron-like fashion for many years. Since their creation in 1999, through the Clitheroe years, as we call them, when Eleanor Clitheroe was the CEO and continuing through the years we have now with Tom Parkinson as chief executive officer, there have been a number of scandals, a number of concerns over spending, use of corporate transportation, whether it's limousines or helicopters, and concerns over compensation.

We included the chart that you were discussing this morning, the picture of executives of Hydro One and their salaries. That data comes from the public sector salary disclosure lists that are made public to the people of Ontario. They are simple facts. That is the compensation that those people received over those years. It's pretty clear from that presentation that salaries have gone up dramatically in the management section of the company. That is despite the act in the Legislature in 2002, which was discussed earlier this morning, that was meant to keep a lid on those salaries. That's just one example, we believe, of the out-of-control nature of Hydro One.

Some of the other concerns we have: management is recklessly allowing the organization to become understaffed. At a time when we need people to make those connections and keep those power lines running, they are no longer hiring members into our category, they're no longer hiring professional engineers and scientists and so on, and I'll discuss that in a few more minutes.

The organization is also attempting to compensate for that understaffing by an excessive use of contractors to do the projects instead of the employees at Hydro One. However, they know from experience that these contractors tend to increase the project costs dramatically and they deliver less than in-house services.

Hydro One is engaged in creative record-keeping to disguise the fact that major projects are over budget and behind schedule. For example, the Hydro One board of directors originally approved the Parkway transmission project on the basis of a budget estimate of \$78 million. The final amount approved for the project by the board was \$156 million. In fact, the actual cost for the project was well over that figure. However, rather than acknowledging that they had gone vastly over budget, the company claimed credit for completing the project under budget. They were able to do this simply by allocating Parkway expenses to other, completely unrelated, projects.

Also, under pressure to rush projects to completion, management has exposed the people of Ontario to unacceptable levels of safety and environmental risk. I'd ask Hamid to describe a situation we had with the Parkway transmission project.

Mr. Hamid Riaz: Hamid Riaz, professional engineer. I'm a senior engineer at the Ontario Grid Control Centre.

About the Parkway project, it was claimed that it was a major achievement. It indeed is a major achievement in terms of relieving the load requirements of the system. The concern that Andy has just raised is that as part of the construction of Parkway, we have exposed or we have taken a risk which might cause an Enbridge gas pipeline to catch fire. This 30-inch-diameter pipeline, which would normally be, according to Canadian standards, at least 10 metres away from any fault-anticipating structure, is one metre away. As a result of that, there was some—and this situation was known way before the construction. Construction went ahead, and to avoid the situation, there were some temporary measures in place. Those measures have been revoked as of July. It is perfectly clear to me that management is totally entitled to take that decision and that some interim mitigating measures have been taken, but the essential requirement is that that pipeline has to be moved, and that has not taken place. I will stop there.

The Acting Chair (Mr. Joseph N. Tascona): Your time for a presentation is completed, so if I could turn it over to Mr. Hampton. The parties have five minutes each to question.

Mr. Hampton: I'd be perfectly willing to waive my time to let the society continue with their presentation.

The Acting Chair: Fine, okay. Mr. Hampton had five minutes, so proceed.

Mr. Müller: Thank you. I'll try to be brief.

We mentioned the safety record of Hydro One. You discussed that this morning and also talked about experienced employees being underutilized, and I'll ask Trevor to speak to that in a minute.

Contrary to the testimony you heard this morning, Hydro One is refusing to offer permanent professional positions to new graduates. Since our members returned to work last year, no new engineers have been hired at Hydro One into our categories.

Management is responsible for the demoralization of the staff who work at Hydro One. While Hydro One is in desperate need of new employees and to retain employees, we are losing valuable people with hard-to-find skills and experience—losing them outside of Ontario and losing them outside of Canada. This is one of the current government's chief concerns: retaining skilled and experienced people.

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Management has also persisted with the stubborn and illegal refusal to work co-operatively with the union. That's covered in the unfair labour practices that were discussed. They're wasting many thousands of working hours and millions of dollars over unnecessary litigation caused by that illegal conduct.

Each of these examples and many more demonstrate why we need government intervention to change the corporate culture at Hydro One. Ontarians are being put unnecessarily at risk, public money is being wasted, staff is mistreated, resulting in extremely low employee

morale. A hiring freeze has put strain on existing staff, and no plans have been put in place to deal with the impending labour shortage which threatens the viability of the company to deliver on its mandate.

Our relations with Hydro One have been referred to earlier. As many of you know, we were on strike last year for 105 days—a strike that was not necessary, one that was forced upon us by the employer. It's rather curious when you compare that to the relationship we have with other major employers here in Ontario: Ontario Power Generation, Bruce Power, ACL etc. We have negotiated long-term contracts, amicable resolutions to all outstanding issues in two-party deals without resorting to any kind of work stoppage or arbitration. One has to wonder why, with Hydro One, the relationship needs to be different.

The strike in 2005 had a significant impact on our members. We expected that impact to finish when they returned to work. Shortly after returning to work, 800 of our members were called to a meeting at the Toronto Hilton hotel on December 1, 2005, and received a speech from company CEO Tom Parkinson, where he as much as threatened these employees with retribution, explained to them that many of their careers had been ruined by their job action and that the company would not forget that. The transcript of that speech is also attached to our submission. I also have a recording of that speech from which the transcript was made that I'm prepared to share with the committee.

When we began the strike, we were 1,032 society members at Hydro One. By May of this year, our positions have been reduced to 781, with 143 members moved by Hydro One into non-union positions. Seventy-one members have resigned or were terminated, and 35 members have retired. That is all, to a great extent, directly due to the acts of retribution by Tom Parkinson.

Trevor, I'd ask you to describe what your working life is like now, after returning to the company.

Mr. Ogle: Following last year's labour dispute, and following the strike, we returned to work, and 16 of us who were sector control supervisors at the Ontario grid control centre were herded into one room and told that we would no longer be permitted to perform the function that we had prior to the strike. Instead, we would be given other tasks, assignments, some of which are pretty menial, some of which are very clerical by nature. We feel we are not being utilized with the skill set that we have.

I think it was very clear this morning. Mr. Parkinson made it very clear that there is a shortage of skilled people, not only at Hydro One, but in the electrical sector in general. We have the skilled people, and they're not being utilized.

During some of the storms that occurred this past summer, when there were greater than 100,000 people out of power, some of the people who would normally lead that restoration effort—those being the sector control supervisors at the grid control centre—were in the building, were one room away from the control room

and were not asked to assist. Do I believe that delayed the restoration? Absolutely.

The Acting Chair: Mr. Hampton's time is up. It's now the government's time, so they can choose to do what they wish with their five minutes. Thank you.

Mr. Milloy: I realize you've obviously been cut off in your presentation, but I think members of the committee and members of the audience here have had a chance to see the entire transcript of the presentation that you've put forward and had a chance to quickly look through it.

Obviously, you've raised a large number of issues here today. The advice that I give in the first instance to any constituent—and I'm sure every other member of the committee does the same—is, are there official channels that you can bring these concerns forward to? Obviously you have, in bringing some of these issues to the Ontario Labour Relations Board. Certainly I think the Chair was very wise in raising that that's a process this committee doesn't want to become involved with.

I'm going to focus on one aspect of your presentation which you didn't get to, and that's the final page, page 13, where you make a number of allegations concerning Mr. Parkinson and three different events, the first of which was discussed this morning when words were used about First Nations people—“[expletive] Indians” was the quote. Second, he was addressing a health and safety conference, and then the third was about some actions that happened on a picket line. I guess the first thing, just to clarify: These allegations that are brought forward are not part of what's gone to the labour relations board? I haven't had a chance to look through the material, so I just want to confirm that.

Mr. Müller: No, they're not part of that submission.

Mr. Milloy: They're not. I guess my concern as a member of the committee is that these are obviously extremely serious allegations. As I said, the first one was referred to indirectly this morning—not the actual detail that came here or the fact that Mr. Parkinson was personally involved, but he was asked about the use of that language by senior management and said that he was unaware of it, so I'm assuming by inference was saying that he himself had not said it. I say “by inference”; obviously Mr. Parkinson will have other opportunities to refer to it.

I ask you, because of the serious nature of all of these—what you presented here today, to be quite frank, is a bit vague. Do you have some details about these meetings, when they happened? Are there transcripts, are there minutes, are there witnesses? This is extremely serious, as I think every member would agree, so I'm just asking for more detail and if you could provide that.

Mr. Müller: Yes. Stories abound in Hydro One about the antics of the CEO. We've worked quite diligently to ensure that the stories we brought were not simply stories but were in fact first-hand, witness accounts of his behaviour. As you can recognize and as I was cautioned by the Chair, we're very reticent to bring forward and name names of these individuals because it's unclear how well we can protect them against further retribution.

I can assure you that we have discussed each of these incidents with a person who personally witnessed it. We're encouraging this committee to make recommendations that would result in an investigation of these acts so that people are protected and can put their names to these incidents.

Mr. Milloy: But I think at the same time, you have to understand the position of the committee. Mr. Parkinson, as I said in regard to the first allegation that was brought forward, seems to have indirectly said that that case didn't happen, and so in a sense you've come here and accused him in front of a legislative committee and are not furnishing any evidence. That leaves the committee at a bit of a loss on how to do that. You haven't even produced information about the dates when it took place, who was at the meeting or, as I say, minutes or transcripts. But I guess your answer is that you're not in a position to furnish any evidence to support those? You're saying stories abound. With great respect, I would think that “stories abound” is not exactly the strongest way to bring it forward to a legislative committee.

The Acting Chair: The time has expired, so I have to move on to Mr. Yakabuski.

Mr. Yakabuski: Thank you for joining us and making your presentation today. There are a number of issues that you brought before us which you have brought to our attention, and in fairness they're not ones that we can necessarily comment on, because these are your submissions. But I certainly am willing to be interested in listening to—I'm presuming that Hydro One, after we have had all our submissions, is going to want to respond to some of the things that you have said.

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One of the things we would all agree on, and that Hydro One agrees on, is the concern about succession planning with regard to our utilities and ensuring that qualified people are being brought up and into the ranks in a manner and a fashion that ensures that we will have long-term stability, be it in OPG, Hydro One, AECL, Bruce Power, any of our entities. I think we all agree that it is a concern, and that's something that we would want to know more about from Hydro One's perspective as well because that's definitely something we all have to be aware of and concerned about to ensure that these utilities continue to operate. We know that we have an aging workforce in all of our installations, and that's something that we all have to do our part to address. But on the specifics, I will want to see what some of their responses are in these; for example, the non-hiring of any new engineers and stuff like that. In fairness, at the same time, we had a presentation today from Adam White of AMPCO, who stated that their members would give Hydro One a very positive rating with regard to its performance vis-à-vis its performance of the past, so we have to be circumspect about those submissions as well.

Perhaps you can enlighten us, if that's the position of a major power user in the province of Ontario, how they are perhaps getting a different view than yourselves.

Mr. Müller: The major power consumers represent one slice of the customers to Hydro One. We saw figures from another presentation talking about outages affecting hundreds of thousands of people here in Ontario, so I think, as was mentioned, different groups have different perceptions of what's important to them, whether they are businesses or the people of Ontario. We see ourselves as guardians of the public trust in Hydro One. We're concerned about what members of the public think about the operation of Hydro One delivering cheap, reliable electricity. I think that's a different perspective than perhaps a business would take on the matter.

Mr. Yakabuski: I appreciate your view on that. Thank you.

The Acting Chair: Our time has expired. I want to thank you for your presentation.

Mr. Müller: Mr. Chair, I just have a question. I have some evidence I could provide to the committee. I don't know the rules of order of your committee and how to make that possible. I have names of people who were at the meeting that was mentioned earlier by Mr. Milloy.

The Acting Chair: If you could send it to our clerk, Tonia Grannum, directly. Thanks very much.

Mr. Müller: Thank you.

ELECTRICITY DISTRIBUTORS ASSOCIATION

The Acting Chair: The next presenter is the Electricity Distributors Association, if they could come forward. Good afternoon. If you could just identify yourselves and then proceed. You have 15 minutes to present to the committee.

Mr. David Collie: Thank you very much, Mr. Chairman. I'm taking my coat off because it does tend to get warm in here, particularly with the lights on. As a conservation measure, one of the things we do in our office is encourage people to take their coats off. It helps with air conditioning. So just a word of conservation there.

My name is David Collie. I'm vice-chair of the Electricity Distributors Association of Ontario. I'm also the president and chief executive officer of Burlington Hydro. I have with me Guru Kalyanraman, who is an EDA staff representative assisting us today.

It's a pleasure to have been invited here today and given the opportunity to address the standing committee on the services and mandate of Hydro One. Hydro One, Hydro One Networks, Hydro One Remote Communities and Hydro One Brampton are long-standing members of the Electricity Distributors Association. To begin, I'd like to take a few minutes to speak to you in general terms about Ontario's electricity distribution industry and the role of the Electricity Distributors Association.

The association has a long and distinguished history dating back to the foundation of the electricity system in Ontario early in the 20th century. The EDA is the voice of Ontario's electricity distributors, the publicly and privately owned companies that safely and reliably

deliver electricity to over four million Ontario homes, businesses and public institutions.

The EDA represents and advocates for its members in today's evolving and often complex legislative and regulatory environments and represents 85 local distribution companies, or LDCs, across the province.

The role of distributors is to take electricity from high-voltage transmission lines and safely provide it to homes and businesses, at an appropriate voltage, throughout their distribution areas.

Distributors, which would come as no surprise, are on the front line of electricity matters, acting as customers' point of contact. They are the consumers' primary billing agent, including those who have signed retail contracts, in most cases. They also provide customer service through regular repair and maintenance, call centres, education campaigns, emergency response and, more recently, with conservation and demand management programming.

The province's electricity distribution industry provides employment for almost 10,000 Ontarians, with a payroll of close to \$1 billion. Distributors also invest close to \$1 billion in Ontario's infrastructure, while providing some \$200 million in the form of proxy taxes to the provincial government.

Hydro One has a unique standing within the association and the electricity industry in Ontario. Not only is it the largest distributor in the province; it is also the only provincially owned distributor. Its distribution network is the largest in the province, with some 123,000 kilometres of wires serving 1.2 million customers, mostly in the rural areas.

As the province's largest distributor, Hydro One has a standing seat on the EDA board of directors, represented by director Geoff Ogram, vice-president of asset management. Hydro One representatives bring a high degree of expertise and experience to the issues of the day, whether related to finance, policy and industry development, operations or regulatory compliance matters, and we welcome their participation in our association.

This afternoon the association will focus its comments to the standing committee on some specific issues and unique challenges confronting Hydro One in today's electricity market. I'd like to address the following six issues:

- (1) System reliability/security of the electricity system and the need to invest.
- (2) Approval of infrastructure.
- (3) Rationalization of Ontario's distribution sector.
- (4) Sufficient cost of capital.
- (5) Overlapping responsibilities of public agencies.
- (6) Long-term load transfers and ministerial directive on Hydro One on the sale or acquisition of assets.

First, system reliability and security of the electricity system and the need for investment: During the 1990s, when Ontario Hydro had responsibility for all of transmission, distribution and generation in one company, the company focused primarily on its generation and its nuclear facilities. As a result, the transmission system did

not receive the attention and resources it required to ensure long-term system reliability.

Hydro One has taken great strides to improve its transmission maintenance practices in the years since and has focused its attention on what's required to maintain the transmission system.

Preventive maintenance, correcting breakdowns and assessing asset conditions constitute over 50% of its current operating costs. These costs are forecast to increase over the next few years. Why? These costs are rising due to aging assets. As the assets come closer to their end of life, maintenance requirements increase significantly. Activities involving monitoring and assessing condition naturally also increase. Equipment failure rates increase as assets age, and eventually these assets obviously must be replaced or fully refurbished. A large number of assets are reaching the end of their 40- or 50-year life in the next few years. As a result, capital investments for sustaining services will increase.

Hydro One will need to make significant capital investments to expand its system capabilities to address the load growth, generation connection requirements and transmission congestion that exist today. These investments are also important in maintaining system reliability, obviously something that distributors are extremely interested in.

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What we'd like to emphasize particularly today is that the province's transmission system requires investments to maintain reliability, and we cannot afford to defer these expenditures that are required to manage the replacement and refurbishment of Ontario's aging transmission system. The need for these expenditures should be recognized and built into future plans.

Second, the approval of infrastructure: The electricity industry is facing considerable challenges over the next few years to meet supply requirements while phasing down coal facilities. We know that new transmission facilities are needed to facilitate the supply to customers, reduce constraints on the system and improve the ability to import power. Hydro One has under way the Niagara reinforcement project in the construction of underground transmission cables to improve reliability in downtown Toronto.

There's also a need to make investments to reliably supply the growing communities—a lot of those across the GTA. The installation of new generation or the closure of existing generation can also affect potential requirements around transmission facilities.

Hydro One has sought to obtain participation and support from local communities affected by these new planned facilities. Clearly, there is a need to ensure that regulatory approval is as streamlined as possible, while ensuring adequate review. A streamlined approach would reduce the uncertainty on potential projects.

Experience over the past few years has identified a need to improve the approach in terms of obtaining that approval. I'm afraid the not-in-my-backyard reaction—

Nimbyism—can significantly stall some projects and negatively impact on system planning.

Although we need to continue to address the legitimate concerns of local communities, of course, we must also take an approach which is balanced and fair to all. The electricity industry requires mechanisms that ensure timely project approvals to reflect the best interests of the province and ratepayers.

Third, rationalization of Ontario's distribution section: Until a few years ago, as you'd be aware, we had over 300 electricity distributors, and after a wave of consolidation between 1999 and 2000, a further handful since that time has taken place. We now have fewer than 90.

Likely, we'll have further rationalization of the industry in the coming years. This could be affected in part by re-issuance by the government of a transfer tax exemption. How dramatically that will impact further rationalization has yet to be determined. Currently, just for information, the largest 15 distributors serve about 80% of the customers in the province.

Changes to Ontario's electricity distribution structure have been debated for some time now, and the focus has been on how we can realize increased efficiencies, economies of scale, and so on, within the sector.

Two years ago, the Ontario Energy Board conducted stakeholder consultations on distribution structures that looked at the optimal LDC size and the barriers or incentives to consolidation, among other issues. Also, in 2005, the Minister of Energy indicated its desire to look at the future of the province's distribution and transmission structures, and released a white paper called *Electricity Transmission and Distribution in Ontario: A Look Ahead*. That stakeholder process was put on hold due to the emergence of more pressing concerns facing the government at the time.

After extensive LDC member consultation through the EDA in 2004, the EDA adopted 15 guiding principles through which restructuring might occur. One of the primary considerations included was this principle: "Any structural changes resulting from any distribution rationalization/consolidation must be accomplished on a voluntary basis." I think that's a key point for us today. Part of the reason for that, of course, is that we have independently owned shareholders, and those rights need to be respected.

The next issue is sufficient cost of capital, which is a concern of distributors affecting both Hydro One's distribution assets and transmission.

Distribution companies employ substantial levels of capital resources to provide the distribution services and investments, which they do, which ensure safe and reliable delivery of electricity to our customers, which they expect. In fact, that's a legislated responsibility that we have.

To sustain a required level of investments in infrastructure, we need and should be entitled to a reasonable rate of return—all utilities. This allows us to maintain our credit so that we can gain access to the capital markets in

order to raise our funds for investment. The allowed return, which is determined by the regulator, is critical in terms of having access to those external markets. These regulated rates of return send the appropriate signals to the capital markets to make sure that we can get access to it at favourable conditions.

Given the level of capital investments required to support our infrastructure, but also the conservation culture in the province, which we are pleased to do, it will require a significant capital investment of nearly \$1 billion in smart meter implementation. We need a reasonable rate of return to attract sufficient capital in order for us to finance a move ahead with those projects.

The recently proposed approach of the Ontario Energy Board in determining the overall cost of capital for Ontario's LDCs is a concern. It could in fact send wrong signals to the financial markets to raise the costs for us accessing additional funds.

The OEB's recent proposal does two things: First, it reduces the rate of return that could potentially raise the cost of attracting this capital; and second, it uses a one-size-fits-all cost of capital structure for all utilities which does not recognize differences in size, differences in geography and difference in rural and urban mix as well.

EDA's assessment of the various risk factors involved for distributors implies that the distribution sector as a whole has in fact increased risk in its business since market opening. Therefore, local distribution utilities now require greater compensation for that risk in order to attract sufficient capital.

To overcome the problems of the one-size-fits-all approach, we support a more flexible approach to the determination of the capital structure and determination of the rate of equity for return for utilities. The fact that Ontario's LDCs will be competing for capital in a highly integrated international market, if not just North America, can't be minimized when considering setting the rates for utilities. We have numerous examples of utilities that have issued public debt, which certainly fits that.

It's also extremely important to consider that legislated and therefore mandatory requirements such as the smart meter initiative require a regulatory environment that allows access to financing at reasonable rates for all utilities.

Overlapping responsibilities of public agencies: As Ontario's electricity structure has evolved in recent years, extra layers of bureaucracy have created duplication of effort and in some instances contradictory advice from different fronts. For example, there are three entities involved in transmission planning: Hydro One, the Independent Electricity System Operator and the Ontario Power Authority. It is further complicated by who makes these final decisions: Is it Hydro One, is it the IESO, the OPA, the OEB or the government?

There is a need for clearer accountability of the roles and responsibilities for these public agencies. This would help address overlap of effort and would create greater efficiencies both in the planning and approval processes.

Long-term load transfers: In this portion I probably will digress slightly from my speech in order to speed it up.

Where utilities have boundaries that overlap on each other, historically what they have had is a very efficient use of capital. If the neighbouring utility was too far for the existing utility to reach those customers, the neighbouring utility would build facilities to those customers, but they would still remain a utility of the original utility. They would build them and meter them, and there would be a settlement between the utilities at the end of the year. The system worked quite well.

In May 2007, the Ontario Energy Board is requiring that those situations don't exist any longer. Utilities either will have to build facilities out to those customers on the periphery—which in many cases may make economic sense; in other cases it may not—or they can ask for special leave of the OEB. That is uncertain at this point in time. Or they will need to purchase those customers from their neighbouring utility.

There are some 5,000 of these long-term load transfers in the province and about half of them involve Hydro One, and yet there's a ministerial directive right now that prohibits Hydro One from buying or selling assets. That is problematic for resolving this requirement, which has been mandated by the Ontario Energy Board.

The Acting Chair: I'm going to stop you there because your time has expired. It's the government's turn. They have five minutes.

Mr. Milloy: Thank you very much, Mr. Chair. I'd like to thank the group for coming forward and for their presentation.

This morning we had a chance to talk a bit about the need to increase capacity in terms of transmission. I talked about my community, a growing community with a large high-tech sector, and I just wanted to get your general thoughts. Obviously you've outlined some of them in your presentation, but if you want to expand on the role of your members who are working with Hydro One: I don't want to say "versus Hydro One," but together, what is Hydro One's role in this? What's your role over the longer term?

1520

Mr. Collie: Certainly. First of all, again, we represent the distributors. Hydro One, as a distributor, is a large member of our association. We work very closely with Hydro One and all our members work closely with Hydro One. I don't think anybody really doesn't have a relationship with Hydro One because they all access—either embedded ways or directly through the transmission grid—those assets, or on a day-to-day basis we have control responsibility back and forth through Hydro One and the relationship is professional, it's businesslike and it's quite good.

Our concern is more—which we've alluded to in our presentation—making sure that Hydro One has the transmission assets available for us as distributors so that we have the electricity capacity to bring to our customers as we need. The area that I directly represent is a high-

growth area as well. We're reaching the point where we need new transmission assets in our area and we want to make sure that Hydro One is ready, available and has the capital in order to move ahead with those types of assets.

Mr. Milloy: I'm going to yield to my colleague here.

Mrs. Mitchell: Thank you very much for coming today and making the presentations. I'm just going to go a bit further than John. You didn't speak to your relationship, really, with Ontario Hydro. I wanted to give you the opportunity to expand on it. Do you find it a good working relationship?

Mr. Collie: I'm sorry, could I ask for a clarification? You said "Ontario Hydro."

Mrs. Mitchell: Sorry, I swing back and forth. I'm like when you talk about the muddies that the OPA—

Mr. Collie: We almost need a chart with all the different groups that we have today.

Mrs. Mitchell: Hydro One. My apologies.

Mr. Collie: Certainly. Again, the relationship works in several ways. There's an operating relationship, which is a very strong, professional operating relationship which we have with the organization. Many of our direct utility members have been through the operating centre in Barrie, which is a world-class facility that has terrific employees that work well with our employees on a day-to-day basis. So that's the working relationship. We also work very closely with Hydro One as the distributor on many industry issues. They've been a member of our association for some time, and because of the depth of talent they have in the organization, they bring a lot of expertise to the table that some of our smaller utilities don't always have. That relationship is good and solid.

Also, on the transmission side there is a different relationship. In that case it's not really a supplier, because they're not supplying the electrons, but in an indirect way a facilitator of capacity for us as utilities, and it's a different relationship there. But again we always want more capacity, and there are issues around physical capacity, but it's always a professional one.

Mrs. Mitchell: What we have heard throughout the day is transmission. Almost every presenter has talked about the need for an increased level of transmission. You certainly have concurred too. You also made reference to the cookie cutter and one size fits all. I wanted to give you an opportunity to expand on that too.

Mr. Collie: Sure. It really relates to the issue that we addressed, which was making sure that utilities and transmission companies have a sufficient rate of return to attract capital. That issue transcends transmission and distribution. Particularly we're talking about smart metering, which is a very capital-intensive undertaking, which we're pleased to do, but it is significant. So one of the considerations that the Ontario Energy Board is looking at is that every utility has the same deemed dead-equity structure. That probably isn't realistic, I think, in our opinion, given the disparity in size of the utilities.

The Acting Chair: Okay. It's now time to move on to the official opposition.

Mr. Yakabuski: Thank you for joining us today. My friend across the way, Mrs. Mitchell, certainly did get it right with our concerns here today with respect to Hydro One. Number one is transmission, because basically what they operate is the transmission system here. As you mentioned, all of your LDCs basically have to deal with Hydro One because they're the ones that bring the power to your companies to distribute locally. They bring it through the major infrastructure lines.

You seem to have, I think like a lot of us have, concerns about where we are with respect to infrastructure, outlook of transmission, outlook here in the province of Ontario. I didn't hear that concern in the presentation from Hydro One this morning. It's certainly a concern that I have and that I've heard from many, many people. Without significant upgrades and timetables changing—and you talked about Nimbyism and everything else with regard to the energy plan submitted by the OPA—how much concern should we have about being able to implement those if we don't get a handle on transmission in the province of Ontario?

Mr. Collie: I think it's very easy sometimes to be focused on generation. Obviously that's a whole different topic and major concern right now for distributors, the supply constraints around generation. But as I'm sure you've heard today, in many cases you can't site generation without sufficient transmission, so the two must go hand in hand. I'm not sure sometimes that's as fully considered as it needs to be. It is a very serious concern. I think the system we have is well managed for the assets we have, but as I said, those are aging and we are talking about siting different generation throughout the province. So those transmission considerations certainly need to be taking place.

As also mentioned, I think it's the process of approving new transmission. So if we all decided tomorrow we want to do a transmission line, it's not perfectly clear as to where the authority lies and what the approval process is to get through new transmission. There have been some incidents where that has slowed up an opportunity for transmission to be a solution to a constraint problem in the province.

Mr. Yakabuski: And there are some where it simply didn't happen—

Mr. Collie: That's probably fair to say, yes.

Mr. Yakabuski: —as I'm sure you're aware.

The next question is smart meters. I know the government rolled out a fair chunk of change for the LDCs when it came to conservation initiatives, to make them somewhat more palatable with the smart meter initiative, but I'd like an evaluation as to honestly where we are with the smart meter initiative. I believe it's 800,000 by 2007 and 4.5 million or something by 2010. Are those timetables realistic at this point? I don't even think they've made a choice on the technology at this point. Are they realistic?

Mr. Collie: Before I answer the tail end of your question, I should just state what the EDA is doing. We've been working very carefully on numerous

committees that have been set up to look at the detailed specifications for the metering devices. We've worked on the practical implementation problems that go with smart meters and come up with solutions. A number of our members have issued a request for proposals in order to get proper vendors that can supply the meters for the first wave.

Mr. Yakabuski: So it's complicated.

Mr. Collie: It certainly is not without challenge. It's complicated. At the same time, we have today a number of members that have started down that path already and have smart meters installed. I don't have a particular number for you today, but they're well on their way to trying to reach the objective of the 800,000.

Mr. Yakabuski: Is it realistic, and is the 2010 objective realistic?

Mr. Collie: It is a requirement, as far as we're concerned as distributors, and we are making sure that as distributors we meet that requirement.

Mr. Yakabuski: Thank you very much.

The Acting Chair: Mr. Hampton.

Mr. Hampton: I'm struck by the comment you make on page 14. You're trying to deliver electricity to your customers and you point out, "There are three entities involved in transmission planning: Hydro One, Independent Electricity System Operator and the Ontario Power Authority." This is "further complicated by who makes the final decisions: Is it Hydro One, the IESO, the OPA, the OEB or the government?"

I just did a quick, back-of-the-envelope chart here. We now have involved in delivering electricity in Ontario: Hydro One, Ontario Power Generation, Ontario Power Authority, Ontario Electricity Financial Corp., the Electrical Safety Authority, the Independent Electricity System Operator, the Ontario Energy Board, and soon to be something else called the metering entity. How much money is tied up in the Ontario electricity system trying to navigate this gargantuan structure?

Mr. Collie: I think you missed the conservation bureau, actually.

Mr. Hampton: They're part of the OPA.

1530

Mr. Collie: All right. That's probably fair. There are a lot of agencies. Today I'm just speaking to distribution and transmission, so the issue was around transmission and the complications. We have specific examples of when Hydro One, to meet new growth, has brought potential transmission solutions for constraints and the approval process was just not clear. So I'm not even speaking to dollars and I'm not in a position to be able to answer dollars, but just in terms of added complexity. All we're asking for as distributors is that we know we've got those end customers. We know they want electricity when they enter into a new home and we want them to use it efficiently. We're pleased to do our conservation and demand management programs, but they do need electricity and we want to make sure it's there. And we don't want potential transmission solutions unnecessarily

tied up because everyone's not sure where the approval is to come from.

Mr. Hampton: From your comments, it sounds to me like the metering concept—I'm not going to call these things "smart meters" because it's not at all demonstrated to me that there's anything smart about them. But the metering concept strikes me as causing you some problems. You mention problems with capital markets, you mention rate-of-return problems, and I see the figure of \$1 billion. Can you elaborate on the rate of return? And is the billion dollars just implementation so far? Because as Mr. Yakabuski pointed out, there is this phased implementation.

Mr. Collie: Our reference to \$1 billion is really kind of a rough figure that's been thrown around, which would include, in general, the entire installation of all the meters. The issue for us as distributors is really that we're working diligently to put in those meters. We're working on all the committees necessary to make sure the specifications are good and that customers get the information they need on a timely basis. But what we need to be assured of is, we have shareholders and we have investors—in many cases, these utilities have issued public debt. We need to make sure that as we're expending those dollars toward that \$1 billion there is a return available to our business for that investment. That is one of our concerns, yes.

Mr. Hampton: Are you worried that you might have to incur these costs and not be able to recover those costs?

Mr. Collie: We want to make sure that we can fully recover those costs, yes.

Mr. Hampton: This is really for clarification: You make reference to the long-term load transfers, right?

Mr. Collie: Yes.

Mr. Hampton: I just want to be clear. I'll give you an example from my part of the province. We have Fort Frances Power Corp., a small distributor. Surrounding it you have Hydro One, but there are maybe some customers who are close to the geographic boundaries of Fort Frances Power Corp. It would be easier for the power corporation to build a distribution line or whatever it might take—it might even take a limited transmission line, I don't know, but it's easier for them to serve those customers than it would be for Hydro One to duplicate or come all the way around. Is that typically the situation you're talking about, that sort of thing?

Mr. Collie: Yes, it is. Your example is relevant where you have a municipality but the utility might not have infrastructure built out to its border and Hydro One might have built assets. It makes a lot of sense to do that. It's very efficient to build assets into the municipal border to service those customers and now the May 2007 requirement is that those be settled up.

Mr. Hampton: They'd be rationalized once and for all rather than an annual settlement?

Mr. Collie: Yes. According to that requirement, we need to settle out those long-term load transfers, and

there are some 5,000 of them. A ministerial directive makes it awkward for utilities to do that today.

The Acting Chair: That's a good time to close, because it's now time for our final presenter of the day. I'd like to thank you for coming here today.

ONTARIO FEDERATION OF AGRICULTURE

The Acting Chair: I'd like to call on the Ontario Federation of Agriculture. Thank you for joining us. If you could just, before you commence, identify yourselves for Hansard and proceed as you wish.

Ms. Bette Jean Crews: Thank you. My name is Bette Jean Crews. I'm with the executive committee of the Ontario Federation of Agriculture. Your notes may say that you were expecting Geri Kamenz and Paul Mistele, who couldn't be here today. I am very pleased to be here in their place. With me is Ted Cowan, research staff with the Ontario Federation of Agriculture.

Reliable and reasonably priced hydro is essential on farms because hydro moves the air, moves the water, moves the feed and washes the barns, so without it crops would spoil, livestock would die and the work to be done would overwhelm a dozen men. Hydro One has over 100,000 farm accounts, and other local distribution companies have close to 40,000 more. On average, farms have three hydro accounts, although there are some with over 50 because there are different meters on each barn and different meters for the house. Power usage on farms varies from about 25,000 kilowatt hours a year—twice that of an average home—to tens of millions of kilowatt hours a year for the largest poultry and greenhouse operations. Total power use on farms comes to about 4% of Ontario's use. Farm customers are more than 10% of Hydro One's distribution revenue base. We're not the largest user of power in the province, but we are significant users.

OFA works with Hydro, the Ontario Ministry of Agriculture, Food and Rural Affairs, and the OPA to promote conservation. OFA is involved in trying to make hydro better for farms. OFA advocates at rate hearings and meets regularly with Hydro representatives at every level, and we are particularly pleased to be here presenting to the committee today. So in a sense, this talk is our report card to Ontario Hydro, and as such it's our duty to provide advice and assistance that will help Hydro One improve where that is needed and to accurately report where Hydro is doing well—and there are many such areas.

We should be aware of the context in which we are working. The years of discussion about privatizing Hydro One were minimally productive. Staff were distracted from their work; thousands were laid off to make the books look better to prospective buyers; some officials felt that there might be bonuses in the form of shares and managed infrastructure that has to run for 70 years on a short-term basis. Hydro One has come through a difficult time and is a more efficient and effective organization

than it was six years ago. With its present management, Hydro One has largely put these distractions behind it and once again is doing what it had done well.

Hydro One has become more customer-oriented, more open and transparent, and in several important ways has changed to better integrate the views of its customers. This is no small thing, and it is fair to say that Hydro One, along with Bruce Power, has performed better than the other major entities derived from the old Ontario Hydro.

Specifically, in the past three years, Hydro One has:

- (1) maintained a very low level of outage time—less than 20 minutes per customer per year;
- (2) improved its earnings;
- (3) maintained an enviable safety record—only one death of an employee at work in the past several years;
- (4) improved and increased their forestry service and so is reducing outages;
- (5) improved service in northeastern Ontario;
- (6) aggressively replaced transformer stations that performed below standard;
- (7) responded to 2005's and 2006's extreme weather events safely and rapidly;
- (8) improved their notice to customers of planned service outages and consistently scheduled more of these for lower-priority times;
- (9) kept recent rate increases for farm customers to below 6%, compared to increases of 9% to 15% for customers in many other utilities in Ontario;
- (10) instituted a customer advisory board and improved its customer service research to be better informed about customer views and improve customer input; and
- (11) contributed to public dialogue and action on conservation, system planning and meter changes in a positive way.

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This is not to say that Hydro One is beyond improving. There are several areas where improvements are warranted, possible and useful and would be sound investments.

Hydro One provides its large industrial customers with account representatives who ensure that service to these 140 large industrial customers is at the highest possible standard and who arrange service upgrades. The farm community uses as much as or more power than the largest of these large customers, but it does not have a farm account representative. A 1-800 line for farm customers that connected to representatives who know farm power problems would be useful for farmers and Hydro One.

Line losses for farm customers are estimated at 9%. This estimate has never been accurately measured. It adds 9% to every bill—and we pay sales tax on the 9% too. Many rural utilities in North America have line losses in the 5% to 7% range. Hydro One is at the high end of what is claimed for line losses. Total losses are in the \$70-million range.

Some losses are physically inevitable, but a 5% loss rate is possible, and a reduction from 9% to 5% would save rural customers \$10 million a year and save power. It is worth investing \$35 million over the next few years to save \$10 million a year each and every year thereafter.

The demands on Hydro One for maintenance and repairs after storms have added to delays for service on customer requests. A system whereby private suppliers would be allowed to do more things, with Hydro paying part of the bill when they cannot do the work themselves before some reasonable deadline—a week for some things, 30 days for others—would be useful. This isn't quite the same as getting your pizza for free if it's slow, but it creates the incentive for prompt response. Similarly, electrical safety inspections should be on the same system.

Stray voltage is a longstanding problem for dairy operations. Stray voltage reduces milk production and weight gain in cattle. In extreme instances it leads to infertility, abortions and death of stock. Some observers claim that it also affects human health. The standard for stray voltage in Ontario remains at 10 volts. Vermont is at less than half a volt. More effective action on stray voltage in large animal livestock facilities is required.

Delays in service in rural areas help chase businesses out of the country and into the cities. So do line losses. So does the rate structure. Hydro One is a key to business development in rural Ontario, and its performance should help with this.

Demand charges for farms and businesses should be restructured so small operations on demand meters are not penalized. Most farm customers with demand meters do not get heavier-duty lines or transformers, so they are not creating new costs. But they provide Hydro with an extra \$15 million a year in revenue from the farms alone compared to volumetric charges. This can be an extra \$1,000 a month for a farm or business, and that is reason enough to move to a town that will treat them better. For example, a farm using \$30,000 in power a year on volumetric charges will consume about 270,000 kilowatt hours. With a demand meter they could receive as little as 175,000 kilowatt hours for their \$30,000.

A sounder basis for demand charges would be to continue volumetric charges up to 100 kilowatts rather than the present level of 50 kilovolts, and to cap demand charges at 120% of the rate that would have applied if the customer were on demand charges.

OFA is working to move corn into the coal plants to provide an immediate cleaner source of power as coal is phased out. We can do this now, but we're looking for \$300,000 in public support to match the \$375,000 we've already raised in the private sector to do the needed test research. This work will lead to cleaner air and start building the transition from fossil hydrocarbon fuels to farm-sourced, sulphur-free carbohydrate fuels.

Looking ahead, Ontario is entering an era when fuel from Alberta is running out. We should plan for that day. Ontario's new energy supplies will come from its farms and forests. Investment now to expedite that is in order. It

will put Ontario in the forefront of new economies. Bio-diesel, hydro from wind and methane, and heat from pyrolyzed wood and straw are all part of our future. This will require that we add three-phase lines so farms can send power to cities as well as draw it from large power plants, and it will require a higher level of reliability as the consequences of outages will not be limited to having to switch to a generator to milk cattle; they will include reduced power for farm customers in cities. Hydro planning should look ahead to include this more sustainable future starting now, and it may be useful to add generation on distribution lines to the OPA planning mandate.

Hydro One is an important partner on the farms. They're doing a good job at not a bad cost. Looking ahead to the future of Ontario and of farming, there are more things they are going to have to start doing and doing well. These include addressing line losses, three-phase lines for export of power from farms to cities, fairer demand rates and still better contact with customers. Bearing in mind that the 100,000 farm accounts are 10% plus of Hydro One's revenue base from distribution and that we intend to be important in the Hydro One service area for a long time to come, our views on hydro warrant some consideration.

On its report card, Hydro One certainly deserves several strong As in financial performance, safety, response to extreme events, notices of outages, minimal outage times on average, transmission line losses and in its dealings with its large transmission-based customers.

For the structuring of its demand rates, its efforts jointly with municipalities to build business development, and its standards on stray voltage and distribution line losses and eliminating public contact at local offices, nothing better than Cs are warranted.

For its efforts in conservation, outage time for rural customers, improved small customer contact and improvements to its call centre, strong Bs are fair.

Overall, a B+ is in order. In fairness, areas of highest present priority are areas where Hydro has performed best. Given limited resources, weaker performance on lower priorities is not unexpected. Nonetheless, stray voltage, line losses, business development efforts, fairer demand rates, and planning to move distributed generation power from farms to cities are important in rural Ontario. These items have to receive more attention if Hydro One is to continue to fill its role in Ontario.

Hydro has to look farther ahead for both its transmission and distribution services if the new 70-year investments are to be sound, and this will require a shifting of and expansion of priorities to address power congestion in the 416 and 905 and the need to move customers into and power out of the 519 and 705 local areas.

Thank you for the opportunity to meet and to present to you today. Again I mention, Mr. Cowan is our staff and resource person. If you have questions, I'm sure Ted is probably the one most suited to answering them.

The Acting Chair: Okay. Thanks very much. You used your time wisely; you were right on time. Mr. Yakabuski.

Mr. Yakabuski: Thank you, Bette Jean and Ted, for joining us today. Until you reached the point that said, "This is not to say that Hydro One is beyond improving," I had actually left the room and I thought that perhaps we had a new submission from Hydro One. But it turns out I did look at the thing and saw that you were from the OFA.

I would concur with a lot of the things you say. We had a lot of significant storms this year, and I've got to tell you that the Hydro One crews in my area were absolutely fantastic in the work that they did to restore power, particularly after the tornado that hit Combermere and area. I had much contact with them throughout all of the outages, and I must say they've been very, very cooperative and helpful.

1550

You talked about a couple of things here. The line losses, 9%, is that the part that you see on your bill where you use that factor? Is that where you get the 1.09, the kilowatt hours—

Mr. Ted Cowan: That's right, and that number is submitted by Hydro One to the energy board for approval in their rate submission.

Mr. Yakabuski: So they've got a 9% line loss built in there—

Mr. Cowan: On rural lines.

Mr. Yakabuski: Well, I'm a rural customer, so I see it on mine. I wanted to make sure we were on the same page on that.

Now when you say other jurisdictions have 5% or they're much lower, some of them are much lower than 5%—

Mr. Cowan: Manitoba, Saskatchewan, Idaho—empty places, long lines, difficult to repair—

Mr. Yakabuski: Different types of transmission too, eh? Quebec, BC—

Mr. Cowan: Slightly different transmission systems, yes. Simpler systems to some extent because they don't have the urban complexities in them.

Mr. Yakabuski: Right. The stray voltage, what is that? That's just leakage as it's going through or by?

Mr. Cowan: Stray voltage is any current that is where it shouldn't be. It's not on a wire. In a barn it can be caused by an improper switch or an improper motor, causing a ground leak to a stanchion in the barn. When the cow drinks, it gets a shock, which goes from the nose to the hind hoof. You feel a shock according to the square of the mass of your body, so a 50-pound child will feel one quarter the shock of a 200-pound person and a great deal less compared to a 1,600-pound cow. The man will feel 64 times less shock, if you will, than the cow, which is eight times heavier.

That is the problem with it, the irritation and the discomfort that this causes, which puts them off their feed. In fact, there are many instances over the years of cows being killed by stray voltage, of abortions of calves

being induced, of milk production being lost, of quality of milk going down and so on. It is very, very difficult for a producer to deal with.

Mr. Yakabuski: I'm trying to get my head around it. Is that a problem with the grid, the infrastructure? You just said a switch in a barn—

Mr. Cowan: There are three general causes. One, it can be caused by problems with old or faulty wiring in the barn. That's the farmer's problem. He made it or his electrician made it; it's his to correct.

You can have situations where power goes to ground outside, on the grid, either at a transformer or off a pole in the vicinity. It will travel underground, and because cement is a better conductor than ground, when it finds the first piece of cement, which will be a dairy barn floor 99 times out of 100, it comes up and when the cattle are in that barn, then they feel that once again.

There are some natural causes. When a wind blows strongly on a metal barn, the movement of air with a slightly different charge on it than the ground induces a current in the metal barn and that will cause current to flow in the barn. You can have excess voltage coming into the barn as well over the line. So it can come on the lines; it can come through the ground; it can be induced in the barn either by faults or by natural causes.

Mr. Yakabuski: What can Hydro One do to reduce that?

The Acting Chair: I have to stop you there. Mr. Hampton, can you proceed?

Mr. Cowan: Sorry. We'll discuss it later.

Mr. Hampton: I was getting a charge out of that line of questioning.

Interjections.

Mr. Hampton: I want to ask you about three-phase lines, though; three-phase power, as I understand it. Can you just describe for me what difference that would make in terms of farm operations?

Mr. Cowan: Two differences. For ordinary farms as we presently think of them, three-phase power is somewhat more efficient for running motors than single-phase power. With large elevators, with manure scrapers, large dairy operations and the compressors—

Mr. Hampton: Water pumps.

Mr. Cowan: Water pumps—all very useful. When you put a generator on a farm to provide power off the farm, you need three-phase power to get it out. With a single-phase line you cannot export power. If we want distributed power in the province, if we want methane generators and wind generators, they've got to be on three-phase lines. We don't have three-phase lines everywhere—they're in probably 25%, maybe 30% of the places.

In the long haul, we're going to need the power that comes from farms: That's the energy of the future. The oil is almost all gone. The coal—some people don't like it; a lot of people don't like it. The sustainable choice is what we grow, where we've always gotten power—and that's going to require three-phase lines.

Where we always got power, 100 years ago, was off the farm. It was wood, it was oatmeal. Now we're going to be looking back to the farms for our power sources starting in about 30 years in a big way, but starting now right away. Three-phase lines are required to move that.

The difficulty here is that the power authority, one of the many groups that plan—

Mr. Hampton: One of eight.

Mr. Cowan: They are limited to considering only power lines 50 kilovolts and up, which include none of the distribution lines. They're not allowed to plan for distributed generation. Hydro One can plan for that. We're not too worried about who does it as long as it gets done, as long as that's implemented.

Mr. Hampton: To your knowledge, is it getting done?

Mr. Cowan: I don't think anybody has looked all that far ahead. The initial OPA plan last fall looked through to, I think, 2016 and they're now looking forward to about 2025, but we're building 70-year assets and we're planning for 25 years. The two things should be in sync and they're not. That's one of the messages that's in here.

Mr. Hampton: Could I ask you to further delineate for us the whole issue around volumetric charges?

Mr. Cowan: Right. There are two kinds of meters. With an ordinary volume meter, if you use 10,000 kilowatt hours a year, you'll pay approximately 11 cents per kW for your power, your distribution charge, for transmission, local distribution and your monthly service charge. You pay per kilowatt hour on a volumetric basis.

If you have a demand meter, you pay per month according to the hour in which you used the most number of kilowatts in that hour, so that might be 120. In Toronto you pay about \$5.60 per kW used in that peak hour. In Hydro One you pay \$12.25, so a little more than twice—which is a bit of a sting, but we understand.

Mr. Hampton: When you say understand—

Mr. Cowan: We understand that there are longer distances that have to be covered there, but the charge is high. But what really happens—you used to get your first 100 kilowatts free, and then you would start paying. In the second-last rate hearing it was reduced to 50, so 50 is the new threshold for being put on a demand meter. In that example, if you're on a demand meter and you're still using that \$30,000 worth of power, you're actually paying about 20 cents per kilowatt hour if you're on a demand meter, for those farmers, instead of the 11 cents for everybody else. Well, if you're an abattoir or a welding shop or a woodworking shop and you wanted to be out in the country because you thought you could get some good employees from there, and you had a reasonable location and you were going to serve customers in each different direction, now you're looking at your power bill, saying it's twice the difference. It's the difference between 11 cents and 20 cents. All of a sudden you're looking at \$1,000 a month. That's \$12,000 a year right out of your pocket, and that's reason enough to move.

The Acting Chair: It's now the government's time.

Mrs. Mitchell: Thank you very much for coming in today and making the presentation. I can't think of how many times we have talked about energy already, so I look forward to having the opportunity again.

Mr. Cowan: Thank you kindly.

Mrs. Mitchell: One of the things I did want to talk about and I do want to make a special point of—certainly the bulk of Hydro One is within the rural communities. I look at it, do the geography, that's where the bulk of their customers are: in rural distribution. The fact is that you did give a B+ overall. You've made some very supportive statements about the shift, the change. I must say that I have always found you to be a straight shooter, as they say around the rural communities. I just wanted to give you the opportunity to expand on it, if you wanted to. You certainly have the points laid out here, but I did want to give you a chance.

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Mr. Cowan: Fundamentally, the hydro system today works. The lights are on. They're on all over the province and they're on at what are still relatively low rates in the North American context. One of the things that has happened, though, is that we're moving up into the North American average, and compared to many of our competing jurisdictions, we're getting ahead of them.

Quebec agriculture gets power delivered to the door at about 5.5 cents, and we're paying about twice that. If you're on a demand meter, you're paying twice that again. For people for whom power is a major cost, that's a very significant consideration. We don't believe that Quebec will be selling Ontario large amounts of power. We think they're going to keep it for themselves in the hopes that the auto plants will go there. That's going to be a problem for all of us on the farms, in the auto plants and so on.

We're not sure that the power line from Manitoba is a realistic thing, to run a power line that far and hope to keep power costs down.

So our concerns are looking ahead. Today is pretty good. The planning for tomorrow is questionable because we think we're planning too short term around several questions for assets that are being built much longer term. We have 25-year plans, but we have a 10-year delay in actually building the thing that we're planning.

Mrs. Mitchell: One of the things that we have heard clearly today is the need for longer-term planning of transmission lines. That's clearly what we've heard today.

One of the things that I wanted to ask about too specifically was the line losses. You've talked about them, but you haven't made any suggestions for rural communities. I just wanted to give you that chance.

Mr. Cowan: Probably the most useful thing to do to deal with line losses everywhere and also to deal with power capacity in this province is to shift to night storage, so that you have what amounts to a solar system. It's a solar system without the solar cells. You charge your batteries off the grid all night long at three cents a kilowatt hour. You use the stuff during the day when it's

ordinarily priced between five to 15 and you save the money. You have to spend a bit to get this. It's half the cost of an ordinary solar system for an ordinary house. So on a \$200,000 house you're adding \$10,000 to the cost of the house. It is an increase, yes, but for the whole life of that dwelling it will keep the cost down. Yes, the batteries have to be replaced. It used to be every three years; now the batteries will go 10 years without any increase in cost. So this is something well worth considering. As far as we're concerned, it's about the only reason for having a smart meter on small and medium businesses or residences.

Mrs. Mitchell: I also think—

The Acting Chair: The time is concluded, unfortunately. It's a good time to stop anyway.

Mr. Cowan: It always is.

The Acting Chair: I want to thank you for making your presentation. I know the committee has appreciated your time.

At this time, Hydro One is permitted to make some concluding remarks in response to the depositions. We afforded the opportunity to all of the agencies that have appeared with us today, and I afford that opportunity to Hydro One, Ms. Burak.

Ms. Burak: I appreciate the opportunity to make concluding remarks. I can assure you I will be very brief indeed, just a couple of minutes.

We appreciated the views of all of the stakeholders who were here today. Many helpful suggestions were put on the table and we'll be following up. But I must take exception to the submission that was put to the committee by the society.

Even in the context of a sensitive labour relations environment, what was put before the committee goes beyond the pale. The society's brief was scurrilous, untrue and likely litigious, and we will respond to the submission with the facts.

For the record, we have an excellent relationship with our other bargaining unit partners, including the larger bargaining unit, the Power Workers, the president of whom is a member of our board. We look forward to sorting out our relationship issues with the society at the labour board, the vast majority of whose decisions, by the way, on matters brought before the labour board by the society up to, during and past the strike were found in the employer's favour. I just felt it was extremely important to put those comments on the record. Thank you for the opportunity.

The Acting Chair: Thanks very much for your comments. That concludes the hearing today. The committee will adjourn until September 27 at its next regularly scheduled meeting. I want to thank all the committee members for attending this week, and I want to thank you, Rita, for making that presentation.

The committee adjourned at 1606.

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