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Mardi 6 octobre 2015

Standing Committee on Estimates

Comité permanent des budgets des dépenses

Ministry of Energy

Ministère de l’Énergie

Chair: Cheri DiNovo
Clerk: Christopher Tyrell

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LEGISLATIVE ASSEMBLY OF ONTARIO

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

STANDING COMMITTEE ON ESTIMATES

COMITÉ PERMANENT DES BUDGETS DES DÉPENSES

Tuesday 6 October 2015

Mardi 6 octobre 2015

The committee met at 0900 in committee room 1.

MINISTRY OF ENERGY

The Chair (Ms. Cheri DiNovo): Good morning, members. We are here to resume consideration of the estimates of the Ministry of Energy. There is a total of 11 hours and 43 minutes remaining.

Before we resume consideration of the estimates of the Ministry of Energy, if there are any inquiries from yesterday—actually, the last time we sat—that the ministry or the minister has responses to, perhaps information can be distributed by the Clerk at the beginning in order to assist the members with any further questions. Are there any items, Minister, that you have to be distributed this morning?

Hon. Bob Chiarelli: No items.

The Chair (Ms. Cheri DiNovo): No? Okay; thank you.

When the committee was adjourned last week we were about to begin the third party's turn in the rotation. Mr. Tabuns, you have 20 minutes.

Mr. Peter Tabuns: Thank you, Chair. Good morning, Minister.

Hon. Bob Chiarelli: Good morning.

Mr. Peter Tabuns: I'm going to go back to the $2.6-billion payment that Ontario makes to Hydro One for their departure tax.

Supplementary estimates show that $2.6 billion is coming from the Ministry of Energy and will go to Hydro One. Is that correct?

Hon. Bob Chiarelli: Yes.

Mr. Peter Tabuns: And you've also told me that Hydro One will be paying the same amount to the OEFC for payment of a "departure tax." Is that correct?

Hon. Bob Chiarelli: Yes.

Mr. Peter Tabuns: When the money is received by the OEFC, what will be done with it?

Hon. Bob Chiarelli: Deputy?

Mr. Serge Imbrogno: Well, it's a PIL payment, so it would go towards paying down the stranded debt.

Mr. Peter Tabuns: So that money will be in the hands of the OEFC. They will use it to pay off bonds or retire bonds that have previously been taken out to cover the stranded debt? Correct?

Mr. Serge Imbrogno: I think the Ministry of Finance would make whatever use of that money they think is appropriate in terms of paying down the stranded debt, whether it's bonds or whatever other instruments they think they need to be paying down.

Mr. Peter Tabuns: So here's $2.6 billion that we badly need for infrastructure. It's coming out of the provincial treasury and it's going to OEFC to pay down the debt. Why are we doing this?

Hon. Bob Chiarelli: The deputy will answer in more technical terms, but to make it simple, and I'm sure Mr. Yakabuski would understand, if I give him $20 and he gives me $20—

Mr. John Yakabuski: You give me $20 and I'll be shocked, but anyway.

Hon. Bob Chiarelli: If I give him $20 and he gives me $20, it's a wash. So that's in effect what's happening here. The deputy will explain it in more technical terms.

Mr. Serge Imbrogno: I think I tried to answer this question last time, but I'll try again in terms of—maybe if we take a step back to the payments-in-lieu regime. Hydro One, like the other MEUs—although Hydro One isn't an MEU—is subject to payments in lieu of tax under the Electricity Act. That's intended to mirror if they were actual taxpaying entities under the Income Tax Act for Canada or the Taxation Act for Ontario. So the Electricity Act mirrors that.

What happens when you leave the PILs regime: You become subject to the Income Tax Act or the Taxation Act. Just before you enter into that new regime—

Mr. Peter Tabuns: Sorry; you'll have to speak up, Mr. Imbrogno.

Mr. Serge Imbrogno: You pay a departure tax when you cease being subject to the Electricity Act. So the $2.6-billion payment would be made by—not that amount but the same departure tax would be made by any municipal electric utility that leaves the PILs regime. That money would go into the OEFC to pay down the stranded debt.

The unique situation here is that we are also the owner of Hydro One. On a consolidation basis, we consolidate both Hydro One and OEFC. In terms of that particular transaction, Hydro One would be down $2.6 billion and we would consolidate that, so our net income from Hydro One would be down $2.6 billion, but our taxes received from the departure tax would be up $2.6 billion. Just that part of the transaction would be fiscally neutral because we're consolidating both. The $2.6 billion down for Hydro One and $2.6-billion increase in OEFC both are consolidated.

If we stopped there, Mr. Tabuns, then we would have a situation—fiscally neutral—but as a shareholder of Hydro One, we would have an asset that's down $2.6 billion. It would potentially have issues with its credit rating metrics, and we're about to broaden the ownership. It's not a financially optimal place to be for us as a shareholder of Hydro One. That's why we would make that capital injection into Hydro One: to keep it basically at its current level in terms of capital structure and to keep its credit metrics the same.

When you make that $2.6-billion investment into Hydro One, you're increasing your investment by $2.6 billion and you're down cash $2.6 billion. That is fiscally neutral as well, but the benefit to us is that, when we sell the asset, it optimizes our value for that asset, rather than selling it at $2.6 billion down with different credit metrics. So that's why the government is doing that.

Mr. Peter Tabuns: If we pay down this debt, that reduces the amount of cash we have to put into infrastructure. I thought the whole point of selling Hydro One was to increase our cash so that we could put money into infrastructure. Correct?

Mr. Serge Imbrogno: The cash for infrastructure comes from selling Hydro One as an asset. So the more we can maximize the value of that asset, the more we can put into infrastructure.

Mr. Peter Tabuns: So we're putting $2.6 billion into something, and we're getting $4 billion back in cash. We aren't that much further ahead in terms of cash; we're $1.6 billion where we wanted $4 billion.

Mr. Serge Imbrogno: I think that's one part of the equation. I think it's: What do we get for that whole asset because we've maintained the value of it?

Mr. Peter Tabuns: I'll come back to that.

This payment will reduce future tax payments to the province by Hydro One. Is that correct?

Ms. Sharon Geraghty: The payment of the departure tax does not reduce the future taxes. There's another impact on Hydro One. It's described in the prospectus. When it leaves the PILs regime, its assets are revalued at fair market value, and that creates a deferred tax asset for Hydro One that would effectively reflect the fact that it has tax savings in the future from that revaluation of its assets. It doesn't arise because of the payment of the $2.6 billion; they're tied, but they're not the same thing.

Mr. Peter Tabuns: How are they tied?

Ms. Sharon Geraghty: They both result from the revaluation of the assets on the leaving of the PILs system. When you leave the PILs system, that triggers the departure tax that the deputy described. The revaluation of the assets, the tax basis of the assets, which is explained in the prospectus, means that the assets are recorded for tax purposes on the books of Hydro One at a higher value than they were before.

Mr. Peter Tabuns: So you're saying that the market value of Hydro One will be higher?

Ms. Sharon Geraghty: No. I think that the deputy explained how the contribution of the $2.6 billion back impacts the value of Hydro One. This is a separate point.

What happens with Hydro One is, because its assets are revalued, from a tax perspective, going forward, the tax basis of its assets is higher. That impacts the deductions it can claim in the future when it pays taxes. They're different—related both to the revaluation of the assets, but different points.

Mr. Peter Tabuns: Let's say we didn't, as a province, give Hydro One $2.6 billion that they could use to pay their departure tax. Mr. Imbrogno has suggested that it would reduce the value of Hydro One to investors. Is that correct?

Ms. Sharon Geraghty: The contribution of the $2.6 billion increases the value of the Hydro One shares that you will own.

Mr. Peter Tabuns: But if we didn't give that $2.6 billion, if we kept that cash and used it for infrastructure, how would that affect the operations of the new, privatized Hydro One?

Ms. Sharon Geraghty: It wouldn't affect their operations, as far as I can see. It would affect the value of the shares that you hold.

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Mr. Peter Tabuns: We own 100% of the shares now.

Ms. Sharon Geraghty: Correct. That doesn't affect their operations; it affects the value of what you hold.

Mr. Peter Tabuns: But as I understand it, when you go through the prospectus, page 106 talks about the change, leaving the PILs and going to the corporate tax regime. It says, "Management believes this will result in an annual net cash savings over the next five years due to the reduction of cash taxes payable by Hydro One."

Ms. Sharon Geraghty: That's correct. That's what I referred to, the increase in the tax basis of its assets will give rise to: They expect tax savings in future years.

Mr. Peter Tabuns: And so if we didn't give the $2.6 billion, there would not be a reduction in cash taxes payable?

Ms. Sharon Geraghty: No, that's not correct, actually. The increase in the tax value of the company's assets occurs when it leaves the PILs regime. That just happens. That also means that it has to pay $2.6 billion of departure tax to the government.

Mr. Peter Tabuns: To the province.

Ms. Sharon Geraghty: To the province. However, if you didn't contribute the $2.6 billion back, it would still have those tax savings. Your shares would simply be worth less. It would have to raise the funds in other ways, maybe through debt or however it would need to raise those funds, and the value of your equity would decline, but the tax savings would remain because they result through the tax system as a result of leaving the regime and having the tax value of its assets increased.

When you contribute the $2.6 billion to the company, that does not cause the tax value of its assets to increase. That will have happened anyway as a result of leaving the PILs regime. It happens automatically under the tax act.

Mr. Peter Tabuns: I think the difficulty I see here, though, is that we need cash to invest in infrastructure.

The government is reluctant to go into greater debt. We are spinning off this company, and it doesn't make sense to me that, given that we need cash, we're putting $2.6 billion more into it so that it will have a higher valuation. We need that $2.6 billion. Why are we not simply using the proceeds from the sale of Hydro One to pay down the debt that's held by the OEFC and utilize the other funds for infrastructure and debt reduction?

Ms. Sharon Geraghty: I'll only repeat what the minister and the deputy have said: You're not out of pocket $2.6 billion because the $2.6 billion you're contributing will come back to you through the departure tax.

Mr. Peter Tabuns: We're out of pocket in that the government needs cash to invest in infrastructure. What's happened with this transaction is, there's been a reduction in debt—and a reduction in debt is a useful thing—but it isn't allowing us to increase the amount of cash on hand to invest in infrastructure.

Mr. Serge Imbrogno: I'll just say that the $2.6 billion goes towards paying down the stranded debt, so that transaction is targeted towards stranded debt. Putting in the additional capital increases our value, and then when we sell the portion of Hydro One, that's what we're using to put towards infrastructure. That's maximizing the amount we can get for infrastructure from that transaction.

Mr. Peter Tabuns: In part you're maximizing it—

Mr. Serge Imbrogno: So we'll be paying down the stranded debt and we'll be reinvesting the proceeds in infrastructure.

Mr. Peter Tabuns: But you're maximizing by reducing the cash that we have available. You're not going to be paying down more debt than you would have otherwise. Your goal, as stated previously, is $5 billion for debt reduction. Correct?

Mr. Serge Imbrogno: That's not changing. The $2.6 billion is separate from paying down the debt related to the transaction.

Mr. Peter Tabuns: So actually $7.6 billion will be plowed into debt reduction in the aggregate. Correct?

Mr. Serge Imbrogno: Well, the $2.6 billion is a payment towards OFEC's stranded debt.

Mr. Peter Tabuns: Right. So that's $2.6 billion plus $5 billion that's going into debt reduction, is it not?

Mr. Serge Imbrogno: One is debt reduction and one is stranded debt reduction. One is towards the ratepayers through the OEFC and one is debt of the taxpayer. Maybe that's not a distinction you necessarily want to make, but I think it's important from a ratepayer perspective.

Mr. Peter Tabuns: So let's go back then: You're saying that the $2.6 billion is to eliminate the stranded debt?

Mr. Serge Imbrogno: It's paid to the OEFC to be used to pay down the stranded debt. I wouldn't say it will eliminate the stranded debt, but it'd be used to pay down the stranded debt.

Mr. Peter Tabuns: So the stranded debt, as I understand it, on March 1, 2014, was $2.6 billion. Has none of that been paid down since 2014? Has there been no further reduction?

Mr. Serge Imbrogno: The stranded debt, and the defeasance of the stranded debt, is a calculation that the Ministry of Finance would make, and it really is a forward-looking calculation. It depends on where you are at a point in time, but it also depends on where you think your revenues are going to be in the future, because a lot of what you're depending on are payments in lieu of taxes coming in and net income coming in from Hydro One, OPG and the LDCs as well. So when you defease a residual stranded debt, it is more forward-looking as well.

I'm just saying that you can't make that calculation simply by equating the $2.6 billion to whatever is left in the—

Mr. Peter Tabuns: If there's $2.6 billion in residual stranded debt and this $2.6 billion is going to be applied to it, if I understand the word—

Mr. Serge Imbrogno: The stranded debt. There's more stranded debt than the $2.6 billion. There are two different calculations: one is stranded debt and one is residual stranded debt.

Mr. Peter Tabuns: And my understanding is that as of the beginning of next year, residential customers will stop paying money into that, paying for the residual stranded debt, correct?

Mr. Serge Imbrogno: That's correct. That is as of January 1, 2016.

Mr. Peter Tabuns: But I understand that non-residential customers will continue to be paying for that residual stranded debt.

Mr. Serge Imbrogno: That's correct.

Mr. Peter Tabuns: We're putting $2.6 billion into it.

Mr. Serge Imbrogno: Again, to pay down the stranded debt—and there are two calculations: One is the stranded debt and one is the residual stranded debt.

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

Mr. Peter Tabuns: Thank you.

Mr. Serge Imbrogno: The residual stranded debt is more forward-looking and that calculation is done by the Ministry of Finance.

Mr. Peter Tabuns: I may well come back to that. I'll leave it for the moment.

On page 106, the prospectus says, "Management believes that these net cash savings"—the reduction in taxes payable—"will not result in a corresponding reduction in its revenue requirement in future rate applications to the Ontario Energy Board."

In other words, if Hydro One management is correct, then these cash savings will benefit the investors but won't benefit the customers. The expectation is that the OEB will say, "Oh, you have extra cash not previously envisioned. We'll let you keep that and we won't pass that savings on to the ratepayers." What's the reason for that?

Mr. Serge Imbrogno: I think it's a regulatory issue with the Ontario Energy Board. I think the Ontario

Energy Board will need to consider what the regulatory principle is, and they would apply that in this case.

This is the expectation of Hydro One, and I think, ultimately, it's identified as a risk. All things are subject to OEB review and approval.

Mr. Peter Tabuns: So why does management believe that the OEB won't take corrective actions? "Management believes that these net cash savings will not result in a corresponding reduction in its revenue requirement...."

Ms. Sharon Geraghty: I don't want to expand on what they say in the prospectus, but I do want to point out that there are two pieces to the transaction that we talked about earlier. The first is that there is a departure tax of $2.6 billion, for which the company, as you have said, will be out of pocket. That tax that's paid on the departure from the system, as I said, results from the increase in the value of its assets, which also results in the tax savings that you have mentioned.

Hydro One's position is that it would not impose on ratepayers the cost of the $2.6 billion that it pays up front, which is the cost of the transaction that the shareholders at large and the company would bear. But correspondingly, they believe that the savings in the tax in the future that result from the increase in the tax value should also be borne by and enjoyed by the shareholders because the upfront tax is not borne by the ratepayers. I think that's the nature of the position that Hydro—

Mr. Peter Tabuns: And the upfront tax isn't borne by the investors, either. The investors have dodged a $2.6-billion bullet.

Ms. Sharon Geraghty: No, as you've pointed out, that's real money out of the company, which the province is then returning to the company to reinvest.

Mr. Peter Tabuns: Right. The investors aren't paying the departure tax. The taxpayers of Ontario are paying that departure tax.

Ms. Sharon Geraghty: No, I don't agree with you. What the province is proposing to do is to contribute back $2.6 billion into the company, which it will then have through the increased value of its shares. It's not a gift to the other investors.

0920

Mr. Peter Tabuns: Well, since it owns 100% of the company now, why does it have to put—sorry. It owns 100% now. It owns all the equity there is to be had. It's putting $2.6 billion in. As you've said, if it wasn't putting in that $2.6 billion, either ratepayers or investors would have to cover that bill. We're a province that needs that $2.6 billion for infrastructure. Why are we putting it in to, in Mr. Imbrogno's words, make Hydro One whole, when in fact what I want is to have Ontario kept whole?

Ms. Sharon Geraghty: As you said, the province owns 100%. So if $2.6 billion comes out, it's the province that bears that cost, and then the province is turning around and reinvesting to increase the value of its shares.

Mr. Peter Tabuns: No, Hydro One is becoming a private company. It's no longer part of the province. It won't be covered in our books. It will be an increasingly independent entity. I don't see why, on its departure, it doesn't pay the tax out of its value to reduce our debt. We should be getting the benefit of debt reduction from those investors.

Ms. Sharon Geraghty: I just want to be sure you understand me. All I'm saying is that at the time at which the departure tax is incurred, the province owns 100% of the company. So if it stopped at the point where the departure tax is paid, the province as owner would bear that entire cost. It's not—

The Chair (Ms. Cheri DiNovo): Thank you. I'm afraid that's the end of your time, Mr. Tabuns.

We now move to the government side. Mr. Crack.

Mr. Grant Crack: Good morning. How's everybody today?

Mr. Serge Imbrogno: Excellent.

Mr. Grant Crack: Good. I just want to continue along the line of questioning, to the surprise of many, of what Mr. Tabuns is trying to get at. You've indicated that there's a departure tax of $2.6 billion and also that the government will reimburse Hydro One for the exact same amount so that on the balance sheet it's equal. Is it fair to say, just for clarification purposes here, that if the province of Ontario was to keep that departure tax, the value of Hydro One as it goes public would be further reduced and that we would realize less, perhaps, from the sale of the shares in the future?

Mr. Serge Imbrogno: If we didn't reinvest, put more equity in, we would have less equity and less proceeds from a transaction.

Mr. Grant Crack: So in essence, we're just trying to maximize the value of the company by making, as you indicated, the company whole. That's a fair statement?

Mr. Serge Imbrogno: Yes, we're trying to maximize our proceeds from the transaction.

Mr. Grant Crack: Thank you. At our last opportunity to question the minister—of course, I'm sure you realize I'm from Glengarry–Prescott–Russell, the most eastern riding in the province, a great riding—I had questioned you concerning the import of clean electricity from the province of Quebec. You had also gone into some detail concerning the memorandum of understanding that has been agreed to between the two provinces. I'm just wondering if you could provide some more information on that memorandum of understanding. Yesterday, when I was chairing the committee on general government—we're dealing with Bill 9, which of course is An Act to amend the Environmental Protection Act to require the cessation of coal use to generate electricity at generation facilities—the Ontario Clean Air Alliance had indicated that with a $2-billion investment in our transmission lines, we could save in the future. So I'm just wondering if there's any progress that you could update us on with regard to that memorandum of understanding.

Hon. Bob Chiarelli: First of all, just to put it in context, the two provinces, through the leadership of their respective Premiers, have embarked on co-operative initiatives in a number of different areas to try to harmonize in a way that benefits both provinces and also benefits

Canada as a whole. They're doing that on the carbon pricing issue through cap and trade. The economic development ministries are looking at how they can harmonize and make trade easier between the two provinces. They're looking at some environmental issues that they could co-operate on with respect to the Ottawa River, for example, which separates the two provinces.

One of the areas in that context is the trade of electricity. As mentioned last week, Ontario and Quebec are already significant energy trading partners, and we're trying to enhance that to the benefit of both provinces. Our overriding principle, incidentally, is that the basis upon which we negotiate with Quebec with respect to trading in energy is that our basic and, essentially, only interest is being able to access clean power at less cost than we could generate or otherwise import. So we signed an unprecedented agreement with Quebec to exchange 500 megawatts of electricity capacity to help each province keep power affordable and reliable. This seasonal capacity exchange represents a cost-effective alternative to building new generation for both provinces.

Additionally, Ontario just signed an MOU to explore opportunities to enhance clean electricity trade with Quebec in order to reduce greenhouse gas emissions and ensure Ontario's system reliability and affordability. Again, that's at a price that is attractive to Ontario. We have fairly significant natural gas capacity and, to the extent that we could use clean hydro power instead of ramping up emissions from natural gas, that could be an advantage to us. We signed the additional MOU to explore opportunities to further enhance clean energy trade between us, keeping our eye on emissions.

Ontario's focus remains on mitigating costs for ratepayers. Any deal would only go forward if Quebec were able to provide electricity at a cheaper rate than it would cost to generate it here in Ontario. Our goal is to get the best deal possible for Ontario ratepayers. Our party has a rational energy policy that is focused on clean energy, conservation and containing costs, and it's in that context.

Again, our government is committed to pursuing opportunities to expand our agreements with Quebec and Manitoba—we've had discussions with Manitoba as well—to increase the flexibility and reliability of our electricity system to reduce costs for Ontario consumers.

Now I want to ask the deputy minister and the assistant deputy minister, Steen Hume, from the energy supply policy division to expand further on our work to enhance clean electricity imports from Quebec. Deputy?

Mr. Serge Imbrogno: Thank you, Minister. I'm going to ask Steen Hume to come up, but I just want to give a sense that Minister Arcand and Minister Chiarelli have had regular meetings and, under that, are supported by my colleague in Quebec, the deputy minister of energy, and myself. We've set up a structure where we have particular working groups that have been set up. One is related to off-grid communities, and that working group continues to provide support. We also have a working group related to Energy East to make sure that Ontario and Quebec are sharing information, and then we also have a third working group—Steen is the lead from the ministry—related to trade with Quebec. On that working group we have the IESO and Hydro Quebec represented. It's observed by the Ministry of Energy, and we participate in that.

I think I'll let Steen just walk you through some more details of what we're doing with the IESO interaction with Quebec and where things are going.

Mr. Steen Hume: Thank you, Deputy. Thank you, Minister. What I'll do is take a bit of a step back so people have an appreciation for where this work, this collaboration, is situated within a broader review exercise.

As the minister alluded to last week, in 2014 the IESO, the Independent Electricity System Operator, prepared for the minister's consideration a review of Ontario's interties. For those of you who are not as familiar with what interties are, these are the connections that allow for the import and export of electricity from Ontario to other jurisdictions. We have a number of interties set up throughout the province. These include Manitoba, down to our partners in the south and a high degree of consolidation of interties in the Ottawa area.

0930

Currently, we're importing about 3.6 terawatt hours of electricity, from Quebec in particular. To put this into context, it's the equivalent of what it takes to keep the lights on in London, Ontario. Ontario has also exported an equivalent amount to Quebec over the past year.

In terms of the work of the IESO and their 2014 intertie report, we asked them to look at a number of different things. One was to evaluate the system requirements for electricity import-export with Manitoba, an evaluation of the work we're doing with US states in terms of imports and exports, and most specifically, an analysis of a number of scenarios around enhancing import-export opportunities with Quebec. We specifically asked the IESO to look very closely at what we could do with respect to Quebec, primarily because they are a generator of hydroelectric electricity, which fits well into the government's overall commitment to greenhouse gas emission reductions through importation and in domestic generation of clean energy.

With respect to the four scenarios that IESO developed with respect to Quebec, scenario 1 focused on a status quo analysis: The notion of importing up to 500 megawatts of power to 2020. The second scenario included imports of up to 1,000 megawatts. Scenario 3 was an additional increase of 1,800 megawatts. Then, the fourth scenario was to look at what the system needs to be able to import 3,300 megawatts. To put this into context, this is the equivalent to the capacity provided by the Darlington Nuclear Generating Station.

I'll go into a bit more detail on what was the advice and the outcome of the analysis that IESO did with respect to the four scenarios, and really where they focused in on was what were the system requirements, what type of additional investment would we need to make with respect to transmission, as well as what it was going to take in terms of time to do these kinds of upgrades.

With respect to scenario 1, the IESO found that the Ontario-Quebec interties near the Ottawa area could be counted on to take up to 500 megawatts of firm capacity, all in, on a regular basis. However, there are some transmission constraints that we have to be mindful of. Those could be including extreme local weather conditions. That's something that always had to be taken into account, but also just ongoing and necessary transmission upgrades, which are contemplated by 2020.

With respect to scenario 2, IESO felt that probably we would need significant transmission upgrades with respect to the Ottawa area, both to meet local reliability needs but also to allow for firm imports of up to 1,000 megawatts. The intertie report estimated that the additional enhancements to facilitate this 1,000 megawatts of firm imports beyond the planned upgrades in 2020 to meet local reliability needs could cost up to $325 million. Including the time needed for regulatory and environmental approvals, they were imagining that this would take three to five years to complete.

With respect to scenario 3, to support firm imports of up to 1,800 megawatts, further transmission enhancements would be required beyond what was laid out in scenario 2, around Ottawa and west of Cornwall. The cost to complete these transmission enhancements is up to about $500 million. Taking into account regulatory and environmental approvals, IESO estimated it would take five to seven years to complete this work.

Some of the upgrades that they were imagining would be required included a new 230-kW double-circuit line between Cornwall and Ottawa, a new 230-kW circuit approximately eight kilometres in length to connect existing circuits west of Ottawa—this is around Kanata—and then additional voltage-control equipment in the Ottawa area.

With respect to scenario 4: IESO had estimated that the transmission upgrades to support the import of 3,300 megawatts of electricity—the equivalent of the capacity that we get through Darlington generation—would be about $2 billion. Including additional time for regulatory and environmental approvals—again, they were estimating anywhere from seven to 10 years.

The Chair (Ms. Cheri DiNovo): You have five minutes left.

Mr. Steen Hume: Thank you.

Mr. John Yakabuski: It's so interesting. Could they just go on?

Mr. Steen Hume: Thank you.

Those are some of the core technical details of what the intertie report from IESO provided. I think what they also provided, which the deputy and the minister alluded to, was some advice around other alternatives that weren't so significant in terms of system upgrades or would take a fair amount of time to put into place to make it possible, and this was to explore some form of energy trading or seasonal capacity-sharing, which are the areas that we've been looking at, specifically with our colleagues in Quebec as well as those in Newfoundland.

With respect to seasonal capacity-sharing agreements, as both the deputy and the minister alluded to: We signed an agreement recently with Quebec to swap 500 megawatts of power capacity on a seasonal basis. As folks can appreciate, Quebec has a capacity shortage in the winter months; Ontario has capacity requirements in the summer months. We felt that there was a win/win opportunity to be able to share as necessary. We anticipate, as early as 2016, that we will be sharing capacity with Quebec as we approach the winter months.

In addition, what we've been discussing with Quebec is an opportunity for a medium-term electricity-trading agreement between the two jurisdictions. Again, as we move into an era of cap-and-trade, the need for clean energy will become more and more important to Ontario and others. Because of Quebec's abundance of clean hydroelectric energy, there is a potential for an opportunity. However, as the minister alluded to, any agreement that we engage between Ontario and Quebec has to be in the interests of Ontario ratepayers as well as our environmental commitments.

Currently, IESO and Hydro-Québec are in ongoing conversations about the system requirements that we need for such an electricity trade agreement to occur at a technical level, as well as my ongoing conversations with my counterpart in Quebec around approvals etc.

We've also engaged in conversations with our counterparts in Newfoundland, who, again, are generators of a fair amount of clean energy through their hydroelectric activities in places like Muskrat Falls etc. At the Halifax meeting of ministers responsible for energy and mining this past summer, the minister, with his counterpart from Newfoundland, announced that Ontario and Newfoundland would explore opportunities for potential electricity trade in the future.

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Currently, the work going on between the two ministries in Newfoundland and Ontario is supported by IESO and by Nalcor in Newfoundland. We're doing some study and planning to do an interim report to the minister before the new year, which we'll then follow up in a year's time with additional details on what the system requirements etc. are for an effective electricity trade.

Just to step back to the intertie report—I know I have only a few more minutes left. I just wanted to talk about some of the work we've been doing with Manitoba. Not only did IESO review the possibility of electricity trade with Manitoba as it relates to interties, but we've also been exploring that opportunity. IESO does highlight in the intertie report that Manitoba would likely need to engage in some system upgrades to make it feasible for the trade of electricity into Ontario. So that's something to be mindful of. On the positive side, Manitoba is another one of those jurisdictions, like Quebec, that provides clean electricity. That is of interest to Ontario.

The Chair (Ms. Cheri DiNovo): Thank you. It is now time for the official opposition. You have 20 minutes.

Mr. John Yakabuski: Thank you. I'm just going to have to have a little water first. That was pretty dry. Wow, 500 megawatts going one way or another from Ontario and Quebec—that's going to save the world, eh? Anyway, that's not what I'm going to ask you about right now. Thank you very much, Minister, for joining us this morning, and Deputy as well, and counsel.

Let me pick up a little bit of where I was last week. You didn't get me that information yet on Carmine Marcello, did you? We'd asked for some information.

Mr. Serge Imbrogno: I think we showed you where in the prospectus and gave the details. I don't think there's anything else.

Mr. John Yakabuski: Oh, that wasn't it. We were looking for a little more detail than that, I think. But anyway, when Carmine Marcello was replaced as the CEO of the new Hydro One, was he paid a severance at that time?

Hon. Bob Chiarelli: Deputy?

Mr. Serge Imbrogno: If he was paid a severance, it would have been disclosed in the prospectus.

Hon. Bob Chiarelli: He's still there. My understanding is that he did not receive a severance—

Mr. John Yakabuski: I haven't had time to look at everything here. You're the deputy, you're the minister, you're the counsel. Could you answer me the question without having me digging? Was he paid a severance?

Ms. Sharon Geraghty: No.

Mr. John Yakabuski: Pardon me?

Ms. Sharon Geraghty: No.

Mr. John Yakabuski: No. Okay. Thank you very much. That's important, because it does show in the prospectus that he's only here until the 31st of December, right? That's what we are confirming?

Ms. Sharon Geraghty: I can't predict the future, but he is committed to stay for transition purposes until then, I believe, yes.

Mr. John Yakabuski: That's what his whole payment package was based on: staying until the 31st of December. What would we need him for beyond that? Is Mayo Schmidt a slow learner, or what's the story here?

Ms. Sharon Geraghty: I'm not going to speculate what Hydro One might want from Carmine Marcello in the future.

Mr. John Yakabuski: Oh, okay. But in the prospectus, it does say that if he's terminated, you're subject to paying him a severance of $1.461 million. So he's staying on until the end of the year, but any time in that point, if he was terminated, he's going to get a tidy little—almost a million and a half in severance. Who negotiates these deals on our behalf, the people of Ontario?

Hon. Bob Chiarelli: That was a decision that was made by the new board—

Mr. John Yakabuski: The new board?

Hon. Bob Chiarelli: Moving forward, yes.

Mr. John Yakabuski: The new board. So who appointed the new board?

Hon. Bob Chiarelli: The new board was appointed by the ministry.

Mr. John Yakabuski: So that would be you individually or you collectively?

Hon. Bob Chiarelli: Yes.

Mr. John Yakabuski: So you appointed the board, then the board makes the deals, and they're prepared to pay out a million and a half in severance should something happen between the board or the corporation and Carmine Marcello between now and December 31. Merry Christmas, Carmine. Merry Christmas, too. That's interesting to know.

Let's move on here for a moment. I want to talk a little bit about hydro rates, because I have heard—oh, if I had a dollar for every time I've heard you talk about the measures you have taken to mitigate the increase in hydro rates, I might be as rich as Carmine Marcello. So out of all of this work to mitigate hydro rates, we find that in 2013 the global adjustment—which is substantially as the Auditor General told us, and we do want to confirm that she has a background in hydro. As the Auditor General told us, it was substantially the result of many new generators, especially in the renewable energy sector, a.k.a. wind and solar. The global adjustment in 2013 was $7.7 billion. In 2014, it was virtually the same.

Now, the global adjustment: Minister, can you tell us what it is, so far, in 2015? What has it amounted to in 2015?

Hon. Bob Chiarelli: I'm going to ask the deputy to answer that question, but I just want to indicate, before I pass it on to him, that the global adjustment reflects costs associated with contracted and regulated generation such as nuclear, natural gas and renewables, as well as the costs of conservation programs. It is—

Mr. John Yakabuski: Minister, with all due respect, we do know what it is comprised of.

Hon. Bob Chiarelli: —independently verified by the Ontario Energy Board, and it's part of the all-in electricity price. Without the global adjustment, generators across Ontario would be unable to produce power. My understanding is that the global adjustment actually was initiated by the Conservative government when they were in office.

I'll turn it over—

Mr. John Yakabuski: It was called a provincial benefit then, and it was, but if you could give me the amount.

Mr. Serge Imbrogno: I know the amounts are on the IESO website. I think I could check the website and get back to you.

Mr. John Yakabuski: Deputy, I'm going to help you. That's what I'm here to do; I'm going to help you. Actually, to the end of August, it was $6.4 billion; $7.7 billion for the whole year in 2014—$6.4 billion through August 2015. If you look at the history of the past two years, the last quarter has been the highest for the accumulation of the global adjustment—the last third, pardon me—the last four months.

I guess it's a fair question: What do we expect at the end of 2015? But even more to the point, today is the 6th of October. Rates will be adjusted November 1. Correct? That's when we get a new rate?

Mr. Serge Imbrogno: That's correct; for the RPP.

Mr. John Yakabuski: You already know how much that increase is going to be. The global adjustment is a significant determinant as to what those rates are going to be, fair enough?

Mr. Serge Imbrogno: It's a component of the RPP, yes.

Mr. John Yakabuski: A significant component.

Mr. Serge Imbrogno: Yes.

Mr. John Yakabuski: Thank you.

You see, we're going on our constituency break next week, so I suspect that maybe at about 5 o'clock, in the middle of a Blue Jays extra-inning game or something, you're going to make an announcement—

Mr. Michael Harris: They don't need extra innings, John.

Mr. John Yakabuski: We don't know. Okay, it's going to be a walk-off—

Hon. Bob Chiarelli: I'm not that smart.

Mr. John Yakabuski: Could we get that quoted and separated from everything else? Just give me that clip from the minister. I want to play that over and over.

So, during that telecast, I suspect that we're going to get an announcement as to what the increase is going to be on November 1. I have got to believe, and I'm not that smart either—just so we can play them together; we can have duelling "I'm not that smart"—it's got to be huge this year because of these contributors. Why don't you tell us? You already know. Why don't you tell us here what that increase is going to be November 1?

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Hon. Bob Chiarelli: I'm going to ask the deputy to speak to that very momentarily, but the other day, when we were debating a bill in the Legislature, you alluded to providing the rest of the story, and you recall that. You referred to a commentator on the radio, and he would always tell the rest of the story? Now, I just have a little comment for the rest of the story.

Mr. John Yakabuski: Oh, no, this is not your show. This is not your show.

Hon. Bob Chiarelli: Before the global adjustment, wholesale market prices were insufficient to cover the cost of contract payments to certain electricity generators, leading the former PC government to accumulate billions of dollars in debt, which created the huge, humongous problem around 2000. This contributed to the stranded debt that consumers continue to pay off through the debt retirement charge.

Deputy?

Mr. John Yakabuski: Oh, no. Before the deputy—

Hon. Bob Chiarelli: No, no. We want to answer the first question. Go ahead.

Mr. Serge Imbrogno: I'll be quick. The regulation price plan is calculated by the OEB. The OEB hires—I think they're had Navigant, in the past, to do the calculation. Partly it's what's in the global adjustment; partly it's that they have a variance account, depending on if they collected too much or too little during the year. So it's a calculation that the OEB makes. We don't have that information to share with you at this point.

Mr. John Yakabuski: You can't share it at this point.

Mr. Serge Imbrogno: We don't have it. It's done by the OEB.

Mr. John Yakabuski: But you're the deputy minister in the Ministry of Energy. Hydro rates matter to you, and they certainly matter to the minister. You're doing your own calculations, too. You're not living in a vacuum out there, wondering what's going to happen on November 1 and waiting until the OEB comes down with their declaration. You're in the business of dealing with the bad news and the good news. So when it comes down on November 1, you already know what's going to happen. You may not have the exact number—I'll concede that; but believe me, you're doing the calculating because the fella beside you wants to know, because he's the guy who has to deal with the political fallout on November 1.

To the minister's "the rest of the story" billions? Well, let me tell you how many billions the global adjustment has meant just since the Green Energy Act—or sorry, since 2006, Bill 100. The auditor estimated $50 billion. London Economics International, when they did the critique on the Green Energy Act for our party, estimated $40 billion. At this rate—in the last two years, close to $8 billion a year. This year already $6.4 billion just through to the end of August, with four months to go. That $50-billion figure by the end of this year is too low. It's actually going to be higher. So when you're talking about how there was billions, it never came anywhere near. "Billions" could mean two or more billion, but it certainly didn't mean up to maybe $60 billion, which is what we're talking on the global adjustment. All of that goes onto the rate base of the hydro customer. That is the thing that is crippling people in this province. That's the rest of the rest of the story—the actual number that you're dealing with here.

What continues to happen here is that—and to your credit, you're changed some of the rules around the FIT program, but you're still subsidizing the price of hydro when it comes to wind generation. In fact, it's up to 12.8 cents a kilowatt hour, and that's just for the power generated.

When you know that this is one of the significant drivers, why do you continue to raise the subsidized rate that you're paying to those types of generators? You continuously talk about, Minister—as I say, I don't know how many times I've heard you say "the steps we have taken to mitigate the increase in hydro rates." I've heard that many times. Then you take steps that cannot possibly mitigate an increase. In fact, they can only exacerbate the increase. So why do you continue to make those decisions? Are they happening in the Ministry of Energy, or are those being done in the corner office on the second floor? What is the reasoning behind those decisions?

Hon. Bob Chiarelli: You're referring to the renewable energy costs, which I think represent somewhere around 8% of the electricity bill.

But I want to talk about the steps that we took over the course of the last eight or nine years, which put a lot of pressure on prices. The pressure on prices comes from the expenditures in the system. When we took over the system, we had a deficit of electricity—

Mr. John Yakabuski: Chair. Excuse me, Chair.

The Chair (Ms. Cheri DiNovo): Yes?

Mr. John Yakabuski: The minister is going to have those opportunities when it goes back to the government side, but at this time, they're my questions.

The Chair (Ms. Cheri DiNovo): And you have about five minutes left.

Hon. Bob Chiarelli: And they're my answers.

Mr. John Yakabuski: Thank you very much.

Hon. Bob Chiarelli: They're my answers.

Mr. John Yakabuski: Yes, I understand that. I know.

The Chair (Ms. Cheri DiNovo): Let the minister finish his sentence. Go ahead.

Hon. Bob Chiarelli: We're talking about pressures on electricity prices; okay? We had a deficit of electricity. The previous government—your government—was importing a billion dollars a year in electricity and prices were going up. We had a dirty system with 25% coal generation. The system was unreliable, with risks of brown-outs for all of our industries across the province. We invested $34 billion to restore the system to credibility.

Under your jurisdiction, under your term—

The Chair (Ms. Cheri DiNovo): Can you wrap this up, Minister?

Hon. Bob Chiarelli: —under your term, we lost generating capacity. We lost transmission capacity. And so over those eight or nine years, yes, we invested in some renewables, but we also expanded: 20 new gas plants; we did the Niagara Tunnel for $1.2 billion; we expanded the Lower Mattagami Dam for $2.6 billion to create a reliable system. That put pressure on prices, but we did it to have a reliable system.

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

Mr. John Yakabuski: Thank you very much, Minister.

Getting to this import-export equation: In the month of June alone, $221 million was lost—export losses—on this export of power to other jurisdictions. That's all part of your equation in your global adjustment in your mitigating of rates that has gone on and on and on. I tell you one thing: We can't even imagine what would have happened if you weren't working so hard to mitigate those increases in rates.

Anyway, $221 million just in June alone; for the year, it's about $1.1 billion on the negative side. So here we are—this is how we do business in Ontario, apparently, under the Liberals—$1.1 billion. We lost about $1 billion last year, and the year is not finished. And here we are, we're selling off Hydro One and we're expected to realize $5 billion towards the debt. We're going to talk about that little calculation a little later. But the $4 billion that you folks are going to put into infrastructure—if you actually managed the system and didn't lose $1 billion a year, we'd already have $4 billion for infrastructure.

That's just on the losses on the sale of electricity in the last number of years. That's $4 billion. So if it's that easy to lose $4 billion, I think a lot of people are wondering how easy it will be for you to lose $4 billion when you get it in one lump sum.

Is it not a fact, Minister, that if you had managed the system better, we would not have lost—I know you've got to have some surplus generation, some surplus capacity, but it is absolutely unbelievable that you could manage a system that poorly, that you could lose $1 billion a year on the sale of hydro that we generate as a surplus at times when we can't use it. By the time we actually get the $4 billion for the sale of Hydro One, we'll probably be another couple of billions of dollars down on energy sales because of all the steps you're taking to mitigate the increases in hydro rates. Would you not concede that if we weren't losing $1 billion a year on the sale of electricity to other jurisdictions, we'd already have $4 billion?

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Hon. Bob Chiarelli: The reality is that we have surplus electricity because we have a reliable system. Because we have surplus electricity, we put it to good use. Electricity exports bring revenue to Ontario that we would not otherwise receive, which reduces cost for Ontario consumers. Revenue from electricity exports reduced costs for Ontarians by $320 million in 2014. Any export revenue is beneficial to domestic electricity consumers because it helps to reduce the costs in the system.

Our strong supply situation allows us to generate revenue for Ontario. In January 2014 we exported to Quebec, who was experiencing record peak demand due to colder-than-normal temperatures. Over a nine-day period we generated over $8 million in revenue. In fact, in that month alone we generated over $56 million in revenue from exporting our electricity. Exports help cover system costs that otherwise would have been paid by Ontario consumers.

It is good for the system to have a surplus capacity so that it's there when we need it, and we export it in the meantime to lower costs in the system.

The Chair (Ms. Cheri DiNovo): Thank you, Minister. I'm afraid the time is up now for the official opposition.

Mr. John Yakabuski: Time is up?

The Chair (Ms. Cheri DiNovo): Yes.

Mr. John Yakabuski: You'd better check that clock.

The Chair (Ms. Cheri DiNovo): It's now time for the third party. Mr. Tabuns: 20 minutes.

Mr. Peter Tabuns: Thank you, Chair. Minister, going back to the matter that we've been discussing, this $2.6 billion that is coming through your ministry in the supplementary estimates, this money wasn't in the budget that we voted on in the spring. Where is it coming from?

Hon. Bob Chiarelli: Deputy?

Mr. Serge Imbrogno: It would come from the CRF, the Consolidated Revenue Fund. The determination of the amount of departure tax wasn't made at the time of the budget, so that's why it wasn't included in the budget. The Minister of Finance would make that determination.

Mr. Peter Tabuns: So it comes out of a contingency fund, or is it money that we're borrowing?

Mr. Serge Imbrogno: I don't have those exact—

Mr. Peter Tabuns: Could you get that exact information for us?

Mr. Serge Imbrogno: I would assume it's from borrowing, but I will check and see if it's from the Consolidated Revenue Fund.

Mr. Peter Tabuns: Just to make sure that that's recorded: You'll get back to us and tell us where the $2.6 billion comes from. Correct?

Mr. Serge Imbrogno: Yes, I'll get back to you on that.

Mr. Peter Tabuns: Do you think you'll be able to get back—we're sitting this afternoon and tomorrow. Is tomorrow possible?

Mr. Serge Imbrogno: I'll make every effort to get it to you.

Mr. Peter Tabuns: Thank you.

In the release that was put out by Hydro One at the time of the issuance of the IPO—you were there at the press conference, Minister—Hydro One noted that it would be borrowing an additional amount of approximately $800 million to, together with other transactions, recapitalize its wholly owned subsidiary Hydro One networks and pay a cash dividend or return of capital to the province of $1 billion.

Minister, can you tell us if that money is coming to the Ministry of Energy? Is it coming to the Consolidated Revenue Fund?

Hon. Bob Chiarelli: Deputy?

Mr. Serge Imbrogno: That would go to the Consolidated Revenue Fund.

Mr. Peter Tabuns: And why is Hydro One paying this out? Is this a debt that ratepayers will have to cover in the future?

Mr. Serge Imbrogno: No, I think Hydro One would optimize its capital structure. I think that it's noting that it will have additional ability to make a dividend payment back to the province.

Mr. Peter Tabuns: So it's going to increase its debt, something that ratepayers will have to fund in the future. Is that not correct?

Mr. Serge Imbrogno: I don't think it's increasing its debt. I think it's paying a special dividend to the province.

Mr. Peter Tabuns: Specifically, it is expected that Hydro One will borrow an additional amount of approximately $800 million. Typically, I think of that as increasing your debt. Is that not correct?

Ms. Sharon Geraghty: Hydro One is going to be borrowing an additional $800 million to put its capital structure where it optimizes in 60-40 that is—I'm going to say I don't think "required" is quite the right word for OEB, but it's the structure that you're supposed to have from an OEB perspective. They are putting their capital structure back to that 60-40, which they think optimizes their position.

Mr. Peter Tabuns: So there will be more debt, the payment for which will be recovered from ratepayers. Is that not correct?

Ms. Sharon Geraghty: I'm not a rate expert; however, the 60-40 structure that I just described is what is assumed for rate purposes in any event.

Mr. Peter Tabuns: I think it's fair for me to assume that Hydro One is taking on more debt to meet this ratio that you've noted and that ratepayers will be paying in future to reduce the interest payments and the capital. It will become part of the debt structure and it will become part of the rate base; correct?

Mr. Serge Imbrogno: It's the deemed capital structure that's approved by the OEB, so the OEB sets that capital structure. Hydro One, through its recapitalization, is just meeting that capital structure.

Mr. Peter Tabuns: Yes, and it's taking on more debt—debt that ratepayers will have to pay in future.

Mr. Serge Imbrogno: It's achieving what the OEB says is appropriate for it.

Mr. Peter Tabuns: That still doesn't negate what I've said.

Hon. Bob Chiarelli: That's a decision for the OEB as to whether it would be rate-based or not.

Mr. Peter Tabuns: Ah. So Hydro One won't be trying to secure funds to pay its debts through rates?

Hon. Bob Chiarelli: I'm going back to a time when I was mayor of the city of Ottawa at the time the Conservative government restructured and had the LDCs become Ontario business corporation corporations. The government and the OEB of that day designated the 60-40 split as being the appropriate financial management structure for an LDC. I think if you go across all of the LDCs, that's where it is. In fact, I think the decision was that there was too much equity in terms of the balance that's recommended for LDCs, and that was adjusted by paying that dividend to the province.

Mr. Peter Tabuns: I understand everything you've said, Minister, but it still says to me that Hydro One will have an extra $800 million in debt, and I would be surprised if the OEB said that Hydro One couldn't recover the principal and interest costs from rates.

Hon. Bob Chiarelli: You may want to speculate on what the OEB does; I won't. Certainly all of the utilities don't speculate, because they're often told "no" or they get something—

Mr. Peter Tabuns: Do they routinely get turned down for trying to pay off their debt?

Mr. Serge Imbrogno: The OEB sets the deemed capital structure.

Mr. Peter Tabuns: Right.

Mr. Serge Imbrogno: Hydro One is trying to meet that deemed capital structure. They're not collecting more than the OEB would allow; they're collecting what they believe is allowable under the OEB rules.

Mr. Peter Tabuns: Okay. Also in that news release, Hydro One has agreed to terminate, effective October 31, 2015, the existing indemnity from the Ontario Electricity Financial Corp. in favour of Hydro One Inc. and certain of its subsidiaries that, among other things, indemnifies those entities in respect of certain matters related to the restructuring of the former Ontario Hydro in 1999.

Can you tell me what these "in respect of certain matters" are and what the indemnities are?

Ms. Sharon Geraghty: I'll attempt to do that.

Mr. Peter Tabuns: Thank you.

Ms. Sharon Geraghty: The OEFC indemnity that you described indemnified the company. When the assets that the minister described were split up into those two companies by the previous government, they had to decide which went where. To the extent that there was an error and there was a cost involved to Hydro One, in this case, to get the assets that it was expected to get, the government agreed to provide an indemnity for that. The government received $5 million each year as compensation for that indemnity. There's never been a claim under that indemnity. In this context, the OEFC and Hydro One agreed to terminate the indemnity going forward.

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Mr. Peter Tabuns: So there's no longer an indemnity for potential errors in calculation at the time of set-up of Hydro One? Is that correct?

Ms. Sharon Geraghty: It has been 16 years since that time and there has been no claim under the indemnity. The company felt that it could terminate the indemnity.

Mr. Peter Tabuns: Okay. So that's what that refers to.

Minister, in a media conference you were asked if the province would have sold Hydro One even if it didn't need the money for transit infrastructure. You indicated that it may well have. Why would this government want to sell Hydro One if it didn't need the cash for infrastructure?

Hon. Bob Chiarelli: First of all, we're not selling Hydro One, as you know.

Mr. Peter Tabuns: You're selling a majority share of it.

Hon. Bob Chiarelli: We're maintaining a very significant ownership in it. There are also governance provisions which enable us to protect the public, and new legislation in that regard. There are corporations that are doing extremely well in that sector. Strictly from an asset management point of view, some future government might very well have looked at it and said, "This might be better done in a way that will enable the company to be more competitive and enable the company to get into different business areas."

We're learning a lot about what's happening in the electricity system right now. There are jurisdictions across North America where they have an expanding economy, and at the same time as they have an expanding economy they're seeing a reduction or flatlining of demand because of efficiencies and new technologies. There are various jurisdictions. In fact, we're projecting a flat demand—

Mr. Peter Tabuns: Yes, I've noticed that.

Hon. Bob Chiarelli: Okay. And a lot of that comes from conservation, efficiencies etc. What's happening is, these LDCs have the prospect of, in effect, a reducing income level, and at the same time they have to maintain the assets. They are looking at new ways, in the energy or the electricity sector, to generate revenue to make them sustainable. Hypothetically, Toronto Hydro can get a franchise on the new Tesla battery, which people use to help them conserve energy in their homes. They would then have a line of business, which would be the battery business, that would benefit the system and the consumer but also benefit their revenue because—

The Chair (Ms. Cheri DiNovo): Two-minute warning until recess, Mr. Tabuns.

Hon. Bob Chiarelli: —as the system is more efficient with more conservation, the business plan for utilities could very well become compromised. So that's why you're looking at PowerStream, for example, that's looking into some of these other areas.

Mr. Peter Tabuns: But why would you sell a company when you're already well aware of strategies that LDCs and transmission companies can utilize to protect their income stream in the years going forward? Why would you sell this when it clearly is going to generate an awful lot of cash?

Hon. Bob Chiarelli: I don't think I've made clear what I was saying. What I'm saying is, the business case that we know now for LDCs will not be holding up over time because they're going to be getting less revenue because there's less consumption and less demand.

Mr. Peter Tabuns: So investors are going to be buying a company that's going to have a decreasing share of revenue and decreasing market in the next decade?

Hon. Bob Chiarelli: The rate base is going to continue to expand. A municipality, when you look at their tax revenues, as you build more buildings and more subdivisions, you get more taxes because of the growth. The same thing applies to the LDC. They're going to be generating revenue because of the base that is growing, but the amount of revenue they're going to be getting from each customer is going to be less. It compromises the business plan moving forward.

There are LDCs across North America, including PowerStream, which is a leader in it, Peterborough Utilities and Hydro Ottawa to a certain extent, that are starting to address that issue. For example, Hydro Ottawa, through their holding company, has purchased some dams in New York state.

The Chair (Ms. Cheri DiNovo): I'm afraid that is all the time we have this morning. We are in recess until this afternoon at 3:45. See you all then.

The committee recessed from 1015 to 1550.

The Chair (Ms. Cheri DiNovo): Finally. Good afternoon, members. We are here to resume consideration of the estimates of the Ministry of Energy. There are a total of 10 hours and 28 minutes remaining. When the committee recessed this morning, the third party had seven minutes left in their questioning rotation.

Just a note: If you're one of the deputies who are coming up or one of the staff, please introduce yourself into Hansard before you begin to speak. Thank you.

Mr. Tabuns.

Mr. Peter Tabuns: Thank you, Chair. A question to the minister, and he may refer it to the deputy minister: What was the purpose of the departure tax on the sale of local distribution companies?

Mr. Serge Imbrogno: Well, the departure tax is part of the income tax. It applies to all municipal electric utilities.

Mr. Peter Tabuns: Why was it set up in the first place?

Mr. Serge Imbrogno: It was set up as part of the federal Income Tax Act. It's not something that the province would impose. It's part of the Income Tax Act.

Mr. Peter Tabuns: Okay.

Mr. Serge Imbrogno: It applies to any company that leaves a non-taxable regime into a taxable regime.

Mr. Peter Tabuns: Okay. So when other local distribution companies in Ontario are privatized—and they may well be, given the changes in the law—will the departure tax be paid by the new private corporation, or will the municipality that owned the corporation be paying the tax?

Mr. Serge Imbrogno: The departure tax would be paid by the shareholder.

Interjection.

Mr. Serge Imbrogno: So the municipal shareholder, the LDC, would pay the tax.

Mr. Peter Tabuns: Sorry?

Mr. Serge Imbrogno: The shareholder, the LDC, would pay the tax—the LDC before it departs, but the LDC is owned by the municipalities. So you could say it's the LDC, but the LDC is owned by the municipal shareholder.

Mr. Peter Tabuns: So at the point of departure, the new local distribution company won't have to pay anything?

Mr. Serge Imbrogno: The departure tax is a calculation and it varies by LDC, so it's not a set amount. It really depends on how much tax you've paid up to a certain point in time, so there's a calculation that's made. It's not a set amount. It would vary from MEU to MEU as they depart.

Mr. Peter Tabuns: I guess I want to know: Does the money come off the balance sheet of the new privatized utility or does it come off the balance sheet of the municipality that sold it?

Mr. Serge Imbrogno: It would be paid by the LDC, and whether the shareholder of that LDC wants to make an equity injection like the province did is the choice of the LDC and the shareholder—

Mr. Peter Tabuns: Okay. But in the end, it's the LDC that has to pay it?

Mr. Serge Imbrogno: Yes.

Mr. Peter Tabuns: All right. You had said earlier today that the $2.6 billion that is coming from the new Hydro One for departure tax is going to the Ontario Electricity Financial Corp. to pay off the residual stranded debt?

Mr. Serge Imbrogno: No, the stranded debt.

Hon. Bob Chiarelli: There's two types of—

Mr. Peter Tabuns: No, I understand there are two types. So it's not going to pay off the residual stranded debt?

Mr. Serge Imbrogno: It goes to pay down the stranded debt, and then the OEFC—well, the Ministry of Finance—will make a calculation every year about where they are and the defeasance of the residual stranded debt. So this would help to pay down the stranded debt, but there's a whole other calculation they would have to make to determine if the residual stranded debt is defeased.

Mr. Peter Tabuns: Sorry, I'm not familiar with the word "defeased." What does that mean?

Mr. Serge Imbrogno: Well, "defeased" is when it can end. If you have enough revenues going forward to pay off the remaining debt, you would say that the residual stranded debt is defeased and you would end the debt retirement charge.

Mr. Peter Tabuns: Residual stranded debt was $2.6 billion in 2014. Let's assume that almost nothing was paid. Let's say it's still $2.6 billion; $2.6 billion is going to go from Hydro One to OEFC. Why is the stranded debt not going to be paid off?

Mr. Serge Imbrogno: Well, I don't have the figures in front of me, but the stranded debt itself is more than the residual stranded debt. It's probably in the $10-billion-plus range. It may be more than that. I can get you exact numbers.

Mr. Peter Tabuns: No, I checked that out. But it was interesting to me that the debt retirement charge which is being taken off residential bills is going to continue on other electricity user bills until the stranded debt is retired.

Mr. Serge Imbrogno: Until the residual stranded debt—

Mr. Peter Tabuns: Sorry. Yes, you're right; the residual stranded debt.

Mr. Serge Imbrogno: Yes.

Mr. Peter Tabuns: And given that $2.6 billion is coming in, there's $2.6 billion in residual stranded debt, why is it that the other electricity users are going to still be stuck with this bill?

Mr. Serge Imbrogno: This is really a Ministry of Finance calculation. I've given you the high level. They'll have to make that calculation because it does measure not just what you have today but it's a forecast of what the revenues are going forward. They'd have to look at: What are the payments in lieu of taxes that we're expecting from Hydro One, OPG and the LDCs? What is the net income consolidation? So there's a whole calculation. That's not just a point-in-time estimate.

Mr. Peter Tabuns: So, in fact, with Hydro One leaving, there will be less money coming to pay off that stranded debt; is that not correct? Because currently what is generated by Hydro One is folded in with OPG and is used to pay down that stranded debt?

Mr. Serge Imbrogno: Part of that would be captured by the departure tax, that lump sum payment. So there'd be other gives and takes in that.

Mr. Peter Tabuns: The departure tax, as I've noted from going through the documents, covers taxes for about five years from now—

Interjections.

Mr. Peter Tabuns: You're consulting, gentlemen?

Mr. Serge Imbrogno: No, we're just talking about—sorry. Could you repeat—

Mr. Peter Tabuns: Anyway, if we held onto Hydro One, we would have—I think it's a $500-million dividend that's projected for next year. We'd have that for the next decade if we held onto it. If we sell it, then five years from now that won't be our revenue.

Mr. Serge Imbrogno: Well, we would have—the net income is devoted to the OEFC—the payments in lieu of taxes. We would still own 85% after the first tranche and then up to, I guess, 40% at some point. So that would still be part of the revenues that we bring in. I guess the $2.6 billion is kind of a payment up front of some of those taxes you would have received over time.

Mr. Peter Tabuns: I guess we can ask the Minister of Finance at another time why he isn't using the $2.6 billion to pay off the residual stranded debt so that we can end those extra charges on people's hydro bills. You would think it would be a very neat match.

Mr. Serge Imbrogno: As I said, it's a modelling effort that goes beyond just the point-in-time estimate. That takes into account all these other flows over time and not just from Hydro One but from the LDCs—

Mr. Peter Tabuns: Oh, no. I know there are others—

The Chair (Ms. Cheri DiNovo): Thank you. That's the 20 minutes. Thank you very much.

We're going to move to the government side now for 20 minutes. Mr. Delaney.

Mr. Bob Delaney: Thank you very much, Chair. Being from Mississauga and having in our constituency, of three of the northwest neighbourhoods, Lisgar, Meadowvale and Streetsville, one of my constituents of course is Enersource Hydro Mississauga. We actually have a very, very good dialogue. They visit me a few times a year; I visit them a few times a year. So what I want to talk about is the proposal to merge Brampton Hydro with Enersource, Horizon and PowerStream.

When we've talked to many of the municipalities at AMO, one of the things that we've always made clear is that if there is a merger among local distribution companies, it won't be either an arranged marriage or a shotgun marriage; it will be a romantic marriage. Indeed, that's exactly the way that this particular proposal has proceeded. In fact, among the employees and certainly speaking of Enersource, their employees stay there a long time, and it's not at all uncommon to find that one is talking to an employee who's been at Enersource for 20 and sometimes 25 years. The fact of the matter is that the employees themselves are fully supportive of this particular merger.

As I've been speaking with Enersource about it, they've talked about the flexibility post-merger to be able to do some very innovative things, and it's their opinion that this is going to minimize cost increases and indeed achieve some potential synergies, cost savings and other efficiencies that would allow them to pass along these savings after the merger. I know that local distribution company consolidation is something that our government has focused on in encouraging the local distribution sector. Enersource, of course, is aware of the scope that the OEB has. In fact, the OEB decisions are, as they've described to me, already made for the transmission and distribution sectors and apply for the next two to three years.

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I'm also aware, as we've often told municipalities at the conferences of the Association of Municipalities of Ontario and the Rural Ontario Municipal Association, that the province has decided not to force consolidations, but instead to create the conditions necessary to allow willing partners to be able to consolidate if they so choose.

I want to end this part by asking the minister if he would inform us a little bit about the benefits of the proposed merger of Hydro One Brampton with the aforementioned Enersource, PowerStream and Horizon, as well as of what the province is doing to encourage local distribution companies to explore the same options and see whether or not those conditions would enable them to be equally diligent on behalf of their ratepayers as Brampton Hydro is.

Hon. Bob Chiarelli: Thank you for the question. The whole issue of consolidation is not a recent significant issue in Ontario. Going back 15 years or so, we had over 300 LDCs, a lot of them very small LDCs. Through a process of various governments, it gradually was whittled down to where we had about 77 five or six years ago; we're down to about 70 now.

There are reasons for consolidation. The Ontario Distribution Sector Review Panel was established in 2012. It was chaired by Murray Elston, Floyd Laughren and David McFadden. They did a thorough review of looking at what the optimum number of LDCs would be for the province of Ontario. They recommended that LDCs merge or consolidate to create eight to 12 regional LDCs. They recommended mandatory consolidations. We did not accept the "mandatory" component. We thought it was important that the LDCs and particularly the municipal LDCs should have the discretion to do that.

The panel suggested that this would result in a net benefit of roughly $1.2 billion over 10 years in present-value terms. Despite the findings of the panel and the challenge issued by the ministry, recent consolidation activity has been limited. It has been limited in part because of the tax regimen, including the departure tax. In the course of moving forward with the Hydro One initiative, in advance of that, we actually made some changes to the tax regimen that would make it less tax-punitive. That has generated a lot of interest among LDCs across the province. A lot of them are talking to each other. They're talking to investors who are looking at joint ventures. We expect that a lot more consolidation will ensue.

Our government intends to proceed with the merger. It's in process, and it's close to the end of the process, for Enersource, Horizon, Hydro One Brampton and PowerStream to ensure value for the province as part of our asset optimization and to encourage local distribution company consolidation for the benefit of ratepayers. This merger represents a major step forward in promoting LDC consolidation in Ontario in line with the recommendations made in the 2012 distribution sector panel report. Together, the merger of these three strong-performing utilities with Hydro One Brampton will create the second-largest electricity distributor in Ontario by number of customers. The merged entity would deliver efficiencies in economies of scale. This approach will create an improved company that will better serve the interests of customers.

Enersource, Horizon and PowerStream anticipate $355 million in savings in operating costs over the first 10 years. The savings would allow for a 5.9% reduction in customer distribution rates. The merger would improve returns for all municipal shareholders involved and provide increased revenue for their municipalities. The details of the proposed merger will now be presented to municipal shareholders for approval. They're just in that process right now. The proposed Hydro One Brampton merger represents a major step forward for LDC consolidation in Ontario and encourages further LDC consolidation.

In addition to this merger, which we believe will spur LDC consolidation, and in order to further promote consolidation of the electricity distribution sector for the benefit of ratepayers, the province has initiated time-limited relief of taxes pertaining to electricity asset transfers for LDCs, including transfers to the private sector, for the period beginning January 1, 2016, and ending December 31, 2018.

The public interest benefits of greater LDC consolidation include improved efficiency and ratepayer savings, strengthened service and reliability, and modernization of the distribution system.

Before I turn it over to Deputy Minister Imbrogno and ADM Michael Reid, I just wanted to talk about a comparison. If you look at what we used to have in terms of number of LDCs, over 300 in the not-too-distant past, and also look at California—California has a population greater than the population of all of Canada and it's got four distribution companies. There are reasons why consolidation has been occurring in Ontario and why it has consolidated as well in California and many other jurisdictions. It simply makes administrative sense and provides for better service delivery.

With those comments, I'll turn it over to Deputy Minister Imbrogno and ADM Michael Reid.

Mr. Serge Imbrogno: I'll ask Michael Reid to come up, ADM of our SNAP division. That's the strategic, network and agency policy division.

The LDC consolidation has been a consistent theme of the Ministry of Energy. We really think this is a way that we can find efficiencies that can be passed on to customers. We've been consistently looking for those efficiencies through the panel that we struck and also in our long-term energy plan.

I think Michael can walk you through some of the events that have been happening in the sector, some of the changes that are going on and what we expect to happen in the future.

Mr. Michael Reid: Thank you, Deputy, and thank you, Minister. I'm Michael Reid, assistant deputy minister at the strategic, network and agency policy division at the Ministry of Energy.

What I'd like to do is maybe provide a little bit more detail and a little bit more context around the comments that have been made by the minister and the deputy about the work we've been doing with respect to local distribution company consolidation and finding efficiencies from the local distribution company sector. At the ministry, finding ways to save ratepayers money is a key priority and the distribution sector has been a key area of focus, given that it is one of the cost drivers in the electricity system.

By way of a little bit of context, as the minister and deputy have already noted, over the last decade or so the province has moved from some 300 local distribution companies to—I think there's about 73 regulated local distribution companies in the province right now. A lot of that activity occurred in the early parts of that period and, over the recent past, activity has slowed in terms of consolidations. That's why the Ontario Distribution Sector Review Panel, which both the minister and deputy have referenced, was struck by the government in 2012.

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The panel was struck in April 2012 and, as has been noted, was chaired by Murray Elston and included David McFadden and Floyd Laughren. The panel took a considerable period of time talking to all parties in the distribution sector in terms of doing its analysis and advice, to prepare the report for government on what they thought were the opportunities and the savings potentials in the local distribution company sector.

The panel presented its report to the government in December 2012. It was called Renewing the Ontario Distribution Sector: Putting the Consumer First. What they concluded was a couple of key things with respect to the local distribution company sector. For example, they did find that there were significant savings, as the minister mentioned, on a net basis. It was about $1.2 billion that they thought was there to be saved in the sector over a 10-year period. Some of the key drivers of those potential savings were things like how, compared to larger local distribution companies, for example, smaller local distribution companies tended to have higher operation, maintenance and administration costs per customer, which is directly passed on to ratepayers.

There was also, given that there are so many distributors, duplication of equipment and facilities in terms of the boundaries between local distribution companies, and they thought there were significant opportunities for savings there. They also noted that the large number of LDCs also increased regulatory costs and that it's just a significant amount of applications, for example, that the Ontario Energy Board has to adjudicate and process each year, given the 73 regulated utilities.

Some of the other things they mentioned as well were that, in addition to things like OMNA costs, smaller local distribution companies also had to pay more to raise capital to fund their capital projects as opposed to larger LDCs, which had an easier time raising capital and lower costs of capital.

So those were a bunch of the things that this panel, when they put them into the mix, found could achieve significant savings in the distribution company sector.

The Chair (Ms. Cheri DiNovo): Just so you know, Mr. Reid, you have about five minutes left.

Mr. Michael Reid: Okay, great. Thank you.

Mr. John Yakabuski: That was a tough question. It takes a long time to answer.

Mr. Bob Delaney: It was a tough question.

Mr. Michael Reid: In terms of some of the cost savings that they—

Hon. Bob Chiarelli: Can we hear unanimous consent so he can go on for another 20 minutes?

Interjections.

Mr. Michael Reid: In terms, then, of some of the savings that the panel did say they could achieve: As noted, it's a $1.2-billion figure, which is a fairly significant figure. As the minister has noted, though, the panel also suggested that this should be done through basically carving the province into eight to 12 regional distributors, and they set forth a process whereby they suggested that distributors have a couple of years to figure how to do this, and that if at the end of those couple-of-year periods it hadn't happened, it should be mandated. As the minister has already noted, the government decided, in terms of the panel's report, not to accept the recommendation about mandatory consolidation, but to instead take an approach that it should be a voluntary consolidation between willing partners.

But the government and the ministry were very interested in achieving that $1.2-billion savings target. So, for example, when the province's 2013 long-term energy plan was released, you could see in that long-term energy plan a bit of a challenge to the local distribution company sector, a challenge that there are these savings to be had and that they should be pursuing consolidation activities where that made sense. But the long-term energy plan also called out innovative partnerships and new, innovative ways of doing business that LDCs could also pursue, which may not go all the way to consolidation but would also maybe reap some of the savings benefits.

That challenge was put out, in terms of the long-term energy plan, to start having these local distribution companies achieve those savings. Then, following the release of the long-term energy plan, the government has also put in place a couple of other measures, some of the tax measures that have already been noted, that will hopefully also create a playing field within which local distribution companies can continue to have these discussions about consolidation and innovative partnerships.

Some of these changes were announced in the recent budget and did include, as has already been noted, changes to some of the departure tax regime that's already been discussed here today, as well as some changes to the transfer tax regime. In particular, the changes to the transfer tax regime were twofold. The first change to the transfer tax regime was reducing the former rate of a 33% transfer tax on consolidation to 22%. The second change was that smaller distributors, those with fewer than 30,000 customers, in particular, would be exempted from the transfer tax altogether. The hope is that, given the conversations that have already started in the distribution sector, given the distribution sector panel report as well as the challenge in the long-term energy plan, these are other changes that'll just help support the momentum that's already built in the sector and continue to see consolidation activity.

The only other thing that I would mention, as well, is that, in terms of consolidation activity, the Ontario Energy Board, which we've already noted is responsible for hearing applications for rates, also reviews consolidation and merger transactions. So acquisitions and divestitures in the transmission and distribution space go to the Ontario Energy Board. When the board takes a look at these activities—whether it's a merger or amalgamation, acquisition or divestiture—in evaluating these proposals, it uses what's called a "no harm" test. Essentially, that "no harm" test takes a look at whether or not the proposed transaction would have an adverse impact, relative to the status quo, with respect to ratepayers, ultimately. The board itself will opine and ultimately adjudicate on the consolidation activities or the consolidation plans of any two utilities. The board, in carrying out these "no harm" tests, is really guided by the objectives of protecting the interest of consumers with respect to price, as already mentioned, but also supply and adequacy, and also to promote economic efficiency and cost-effectiveness in—

The Chair (Ms. Cheri DiNovo): Thank you, Mr. Reid. Your time is up now.

We move to the official opposition. They have 20 minutes.

Mr. John Yakabuski: Thank you very much, Madam Chair—

The Chair (Ms. Cheri DiNovo): Mr. Yakabuski.

Mr. John Yakabuski: Pardon me?

The Chair (Ms. Cheri DiNovo): Mr. Yakabuski.

Mr. John Yakabuski: That is I. Thank you very much, Chair.

Thank you, again, for coming this afternoon, Minister. You talked about that at one time there were 300 and some LDCs in Ontario; I think it's 70-some today, and you compared that to four in California—a much greater population, 40 million or whatever. But, just so that we understand where we're starting from, how many LDCs were there in California before they began consolidation?

Hon. Bob Chiarelli: I don't know the number right now. I'd have to—

Mr. John Yakabuski: But we're not starting from a—I'm going to suggest that it's unlikely we're starting from a similar number. It's unlikely there were 300-and-some LDCs in California when they began consolidation.

Hon. Bob Chiarelli: My understanding is that there was a process of consolidation, but I don't know what the starting number was.

Mr. John Yakabuski: Right. Okay. I just think, when you're using comparatives, it's important to have all of the information. Anyway, that's not my question. I just thought you might have had that information for us.

You were talking this morning about when you have a surplus in generation and you've made a surplus—I think you used the word "surplus" and that you've made good use of it; and another time you were talking about if you gave me $20 and I gave you $20. Well, I'm going to paint a little different scenario. Supposing you had a flock, or whatever we call it, of laying hens and they produced so many eggs, but you couldn't sell all those eggs. Would you get more laying hens, or would you try to get rid of some of those laying hens? What would you think would be the right thing to do?

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Hon. Bob Chiarelli: I guess my answer to that is, representing the riding of Renfrew–Nipissing–Pembroke, you know about laying hens; I don't.

Mr. John Yakabuski: Well, you just laid an egg, I'll tell you that much. But, anyway, we'll move on from there.

Let me answer my own question. If you're in business—and you've maintained for a long time, Minister, that you want to run the electricity system in Ontario in a more businesslike fashion because you want it to be efficient, to represent and to be best for the people of Ontario. Whether you're making widgets or whether you're laying eggs, if the supply exceeds the demand, you're very likely going to do something to reduce the supply. It's simple economics, and I know you're a businessman from your previous life; you do know economics.

So you'd know that the right thing to do would be not to increase your supply, and especially if you're buying high and selling low—not the secret to making money in the stock market—but this is what you've done in the electricity system here in the province of Ontario. You buy high, you sell low, and when supply exceeds demand, you continue to increase supply.

Here's what's happened—and I know you trumpet your conservation programs as being a positive, positive thing, but here's what actually happens. So you've got Mr. and Mrs. Smith. We'll just throw them in because Mr. Smith is beside me, but these would be a much older Mr. and Mrs. Smith, who built a home in the 1970s. It's got baseboard electric heat. But they also had to install air conditioning because now both of them suffer from respiratory issues. They're in their late seventies, early eighties.

Here they are, trapped in Liberal Ontario. In the wintertime, they've got baseboard heating. They can't afford to sell their home, but we want to keep them at home because that's what your government keeps saying: Let's keep our people at home as long as we can; we don't want them in the long-term-care homes or we don't want them in the hospital, so we're going to keep them at home. But the cost of heating that home in the wintertime is absolutely astronomical, because it's baseboard heating. Remember back in the 1970s when the Cascade 40—"It's electric, water's hot, get your Cascade 40 water heater"—and put in the baseboard heaters? All those people working for you—some of them were there in the 1970s but some of them weren't even born, probably.

Here we are now, today, and they can't afford it. That same couple now, in the summertime, the doctor has told them—and I know you're at war with the doctors, but that's not you personally—"You have to have that air conditioning going because of your respiratory issues, and we want to keep you at home." So here we are now in Liberal Ontario. They have all of these conservation demand programs, which are designed to take down the demand for electricity; in turn, they drive up the cost of electricity because they all are added to that rate base; they all go into that global adjustment and drive up the cost of electricity to that very couple who is already hampered by the cost of electricity in your version of Ontario.

They're doing everything they can to reduce their use of electricity, so their consumption has dropped, relative to what it could be. They're managing as well as they can, but their hydro bills continue to rise because everything that you've done, purportedly, from your point of view, to help them, is actually hurting them, because every time you come up with a new program or especially when your supply exceeds demand, you're continuing to drive down demand even further, which continues to drive up the price.

How are we supposed to answer to that couple that is doing everything they can to reduce their actual kilowatt hours of electricity, but the price continues to go up because of all of the policy decisions that your government has made? And it starts with the Green Energy Act—and I don't hold you personally responsible for the Green Energy Act; you had predecessors who were the architects of that mess. How are we supposed to explain to that couple that has done everything they can to manage their electricity usage, and their bills keep going up? How do we do that?

Hon. Bob Chiarelli: Well, you alluded to the Green Energy Act putting pressure on prices. There was something that was much more significant than the Green Energy Act that put pressure on prices. It actually necessitated the electricity system spending about $34 billion. That put a lot of pressure on electricity prices. It's because, for some strange reason, the province of Ontario ended up with a deficit of electricity. It did not have enough electricity to meet its demand. It was importing $1 billion a year—expensive power.

In addition to that, the system had been under-invested in. We had actually lost generation capacity; that's why we're into deficit. We lost transmission capacity. So somebody had to make the system reliable and had to rebuild it. That took $34 billion. The majority of it had nothing to do with the Green Energy Act and renewable, which a lot of people like to attribute to the pressure on prices. That $32 billion included building 20 new gas plants. It included the $1.2-billion Niagara tunnel, which was water power. It included $2.6 billion to expand the Lower Mattagami dam. It included $1.2 billion to build new transmission from Bruce Power to Milton. All of that put tremendous pressure on prices.

We had to have a system that was clean as well. So we took the opportunity, in rebuilding the system, to get rid of dirty coal. Getting rid of dirty coal—

Mr. John Yakabuski: My question, Chair, was: What do we say to the couple?

Hon. Bob Chiarelli: —actually saves the province $4 billion a year, and that $4 billion—

Mr. John Yakabuski: I only get 20 minutes.

Hon. Bob Chiarelli: —is in environmental costs and in health care costs. You don't see the smog days—

Mr. John Yakabuski: I know, Minister, you were a hockey player in your previous life and I know you even had a scholarship. I guess you were really good at ragging the puck, because that's what you're doing now.

Hon. Bob Chiarelli: How did you know I was a penalty-killer when I played hockey? That's what my job was.

Mr. John Yakabuski: Because I spent my life in the penalty box, but anyway. We're going to move on to the next one here.

I get your picture: We don't necessarily agree. But some of the things that you said actually play into our argument itself. You said that you built 19 or 20 gas plants, but you didn't build those to add capacity to the generation; part of it was exactly because the Green Energy Act was coming, and some of it since the Green Energy Act, because you know you have to have a reliable, dispatchable form of generation to back up the wind that you cannot dispatch. You have no power to dispatch the wind.

I want to get back to the cost. The other thing that adds to the bill for that poor couple, Mr. and Mrs. Smith—I hope they're watching. All of this electricity that you've given away, you're talking about buying electricity for $1 billion a year; well, you're giving away $2 billion a year. You're giving it away because—you know that egg thing I was telling you about? You're giving it away.

I want to know, when we calculate that into our global adjustment, does that actually include the potential power that has been allowed to pass over our dams, without generating a single kilowatt, because we allow all that water to pass over the dams when we're over-supplied, in the middle of the night, with wind when we don't need it? What is the calculation for that, the amount of water we've allowed to pass over our dams that we've generated nothing from? Once that water goes by, we can't make the water go the other way. Water doesn't run uphill. So what's the calculation of that?

I presume—or I shouldn't; I never presume anything with you people. But I would hope that we've actually calculated the cost of the steam that we've blown off at our nuclear plants when they, as our baseload, get an order from the IESO to "shut her down, boys, because we've got the windmills blowing up at Shelburne; we have to take them."

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I would like to believe that we calculate all of the costs of the steam that we've had to allow to expel at the nuclear plants during those times. Have you calculated, do you calculate, will you calculate, and can you tell Mr. and Mrs. Smith how much that water going over those dams that we've gotten nothing out of has cost them?

Hon. Bob Chiarelli: I'm going to ask the deputy to answer that question.

Mr. Serge Imbrogno: The IESO, in managing the system when there is surplus generation, would take into account whatever payments they would have to make to Bruce Power to manoeuvre the system. So those payments would be included in the cost of the global adjustment.

Mr. John Yakabuski: Pardon me?

Mr. Serge Imbrogno: The IESO would manage the system. They would determine when they would need to manoeuvre the Bruce units, for example, and run steam instead of producing electricity. They would make a payment to Bruce Power to compensate for that.

Mr. John Yakabuski: We understand that. Bruce gets compensated. I said that I presumed that that was calculated. What about the water that goes by—and once it goes by, it never comes back. Have we calculated the potential value of that water that could be used to turn those turbines at essentially free—the water is going by whether we get it or not. When we calculate the cost, it's the cost of operating the system. The water is free. Nature provides it. Have you calculated the potential value of that water that you allow to go by without generating anything, yet you're allowing wind and other renewables into the system?

Mr. Serge Imbrogno: OPG would be under a rate-regulated contract. They would receive their costs for the power they produce.

Mr. John Yakabuski: For the power they produce, but what about the water?

Mr. Serge Imbrogno: That would be part of the system management. The IESO would determine when they need the power and when they don't; when they need to spill water and when they don't.

Mr. John Yakabuski: But if the rules are that they have to accept the wind—if they were allowed to bring more of that water through the turbines, generating electricity, our cost of power would actually go down, would it not?

Mr. Serge Imbrogno: The IESO would optimize the system, and they would determine who runs and who doesn't run.

Mr. John Yakabuski: No, no, no, not about the IESO. The cost of power would go down, wouldn't it? Water power is cheap. We can get Paul Norris in here; he can tell you. Water power is cheap. If we were actually able to extract more of our electricity out of that water that you're allowing to pass over the dams while getting nothing out of it, our cost of electricity would go down, would it not?

Mr. Serge Imbrogno: The IESO is optimizing the system and they would determine who should run and who shouldn't run. They would make that calculation.

Mr. John Yakabuski: Optimizing? But they also have to work based on the policies of the government of that day; correct?

Mr. Serge Imbrogno: They would work with the supply mix that is intended to be balanced and achieve a number of objectives.

Mr. John Yakabuski: They work with the policies of the government of the day.

The Chair (Ms. Cheri DiNovo): Mr. Yakabuski, you have about five minutes left.

Mr. John Yakabuski: Five minutes? I'm going to take a break and pass this on to my colleague.

Mr. Todd Smith: Thank you, Mr. Yakabuski.

I guess the point that Mr. Yakabuski was trying to make when speaking of laying hens was that the government continues to keep putting up wind turbines and solar panels, which are the least efficient and least reliable forms of electricity, and they're forcing them on unwilling host communities when we already have a surplus of power.

Minister, what is the maximum power as far as megawatts that we have in the province right now? How many megawatts of power do we have? Total capacity.

Mr. Serge Imbrogno: I think it's 157 megawatts capacity.

Mr. Todd Smith: Right.

Hon. Bob Chiarelli: In the whole province.

Mr. Serge Imbrogno: The whole province.

Mr. Todd Smith: I was thinking it was more—

Mr. Serge Imbrogno: Terawatt hours; sorry. The power we produce: 37, 38, 40 megawatts.

Mr. Todd Smith: And on the peak day this past summer we would have required how many?

Mr. Serge Imbrogno: Some 22 or 24. At peak.

Mr. Todd Smith: Thousand megawatts. So my point is that we have a lot of the hens that Mr. Yakabuski is referring to but we continue to add more and more. Why are we continuing to add more when clearly we have far more than enough to meet the demand right now?

Hon. Bob Chiarelli: There's the question of reliability, number one. You need to have enough capacity for the worst possible situation. The worst possible situations could include something like the 1998 ice storm, when the big transmission lines went down and there were huge areas of eastern Ontario that had no power for a long, long time. You access and you redirect the generation and the transmission to accommodate that type of situation. If you look at good energy management practices, an operating system needs to have reserve surplus available at all times, even though it's not using it.

Mr. Todd Smith: Let me ask you this question, then—

Hon. Bob Chiarelli: If I can use an analogy, if you have a fire station and you have three vehicles, four vehicles there that are not always on the road—you use them when the need arises.

Mr. Todd Smith: So your point is you want to have a reliable energy source for the province.

Hon. Bob Chiarelli: You want to have a reliable energy source, energy mix, and you want to have a reliable energy capacity.

Mr. Todd Smith: What is the most reliable source of energy that we have in Ontario?

Hon. Bob Chiarelli: The most reliable source of energy we have is our policy of our energy mix, because that's what gives us reliability. If you look at nuclear, nuclear is baseload; it's running all night long, it's clean, it's affordable and it's reliable, so it's used. But it's like having gears on a vehicle; nuclear takes a long time to ramp up and ramp down, so if you have a storm come in or you have units that go down anywhere, you use gas, you use renewables, you use hydro to fill that gap.

Mr. Todd Smith: Let me ask you about reliability, though, because the gas is there when you need to peak, right? Wind and solar: Would they not be the least reliable sources of electricity in the province?

Hon. Bob Chiarelli: I would say yes, they're the least reliable, but they are reliable and they form a part of the system.

Mr. Todd Smith: How are they reliable, Minister, if you never know when they're going to be available?

Hon. Bob Chiarelli: Well, first of all, there's a premise there that the province of Ontario is being irresponsible by having wind and solar. If we're being irresponsible by having wind and solar, so is Alberta, so is Nova Scotia, so is even Quebec, because they're all into wind, they're all into solar, and they're doing it because that's part of a reliable system and a clean system.

Mr. Todd Smith: But I would argue—

The Chair (Ms. Cheri DiNovo): I'm afraid we're going to have to drop it there. That is the end of your 20 minutes.

Mr. Todd Smith: Oh, that's too bad. That was just getting interesting.

The Chair (Ms. Cheri DiNovo): We're going to move on to the third party. Mr. Tabuns, 20 minutes.

Mr. Peter Tabuns: I understand, from an email circulated by staff, that you, Minister, will be getting back to this committee to confirm the source of funds for the $2.6-billion payment to Hydro One.

Mr. Serge Imbrogno: I can answer that.

Mr. Peter Tabuns: You can answer that?

Mr. Serge Imbrogno: Yes. I think we talked about it being fiscally neutral. We've also just confirmed with the Ontario Financing Authority that it would be cash neutral. So they would have cash on hand; they would—these things almost happen simultaneously—transfer the $2.6 billion to make that equity injection into Hydro One. Hydro One would then make the $2.6-billion payment on departure tax back to the OEFC and the province. So in terms of cash, it would be cash neutral; it would almost happen instantaneously.

Mr. Peter Tabuns: And the cash, the $2.6 billion that is coming from the province, is that borrowed or is that—

Mr. Serge Imbrogno: Well, that would be working capital that—the Ontario Financing Authority always has working capital on—it would be kind of an instantaneous transaction.

Mr. Peter Tabuns: So our overall working capital will drop by $2.6 billion.

Mr. Serge Imbrogno: At a second, and then it would go back up to the $2.6 billion.

Mr. Peter Tabuns: Sorry; it isn't going to go back into working capital, because that $2.6 billion will transit through Hydro One and wind up with the Ontario Electricity Financial Corp.

Mr. Serge Imbrogno: The OFA manages all the cash for the province, the OEFC, so it's all part of the same envelope.

Mr. Peter Tabuns: So is the OEFC debt being reduced or not?

Mr. Serge Imbrogno: There's a difference between the cash and then the actual reduction and the PIL payment. There are two things going on. There's this cash transaction, but there is also the PIL payment that would make a real reduction in the stranded debt, which is different than just the cash transaction.

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Mr. Peter Tabuns: Let's go through this. The Ontario Financing Authority you referred to—

Mr. Serge Imbrogno: Manages the debt and the cash for the province.

Mr. Peter Tabuns: Okay. So out of its working capital, a little reserve that it has, to deal with bills as they come up, it's going to transfer $2.6 billion to Hydro One. Correct?

Mr. Serge Imbrogno: Right. In exchange for that—

Mr. Peter Tabuns: In exchange for—

Mr. Serge Imbrogno: The capital contribution. So they're neutral on that. As the province would take our investment in Hydro—

Mr. Peter Tabuns: Sorry; when you say "capital contribution" you mean the province assumes ownership of greater than 100% of Hydro One?

Mr. Serge Imbrogno: We would acquire an additional equity in Hydro One of that $2.6 billion.

Mr. Peter Tabuns: We own 100% of it now.

Mr. Serge Imbrogno: Well it would be $2.6 billion in addition to what we would have. We would have 100% of a larger amount.

Mr. Peter Tabuns: So we've reduced our working capital, and on the other side of the ledger you say that we'll get a certificate showing that we have $2.6 billion more in equity.

Mr. Serge Imbrogno: Correct; and that's fiscally neutral.

Mr. Peter Tabuns: And is that $2.6 billion convertible to cash when we need it for things like subways?

Mr. Serge Imbrogno: That would be our investment in Hydro One, and then when we move forward with the broadening of the ownership, then that's when we would receive our proceeds for the investment in infrastructure.

Mr. Peter Tabuns: Mr. Imbrogno, if we give $2.6 billion and we get $2.6 billion back, how does that give us more money to build subways, bridges, roads etc.? If we had the $2.6 billion in the first place, why are we circulating it through Hydro One?

Ms. Sharon Geraghty: Hydro One has got to pay the $2.6 billion. That part is required, and the province is choosing to reinvest the $2.6 billion. So the transaction, as has been described a couple of times today, is, from a cash perspective, neutral to the government.

Mr. Peter Tabuns: Well, no, we've acquired an asset which is not a subway, a road or a bridge.

Ms. Sharon Geraghty: But you first put $2.6 billion into the company and then you received it right back. So there's no—

Mr. Peter Tabuns: In cash.

Ms. Sharon Geraghty: It went out in cash and it comes back in cash.

Mr. Peter Tabuns: We give Hydro One $2.6 billion and they give $2.6 billion back to the working capital that runs this province?

Mr. Serge Imbrogno: They would make their payment to the OEFC, but they would make that payment in cash, which comes in to the province. The OEFC manages all of the cash for the province.

Mr. Peter Tabuns: But the $2.6 billion that goes from Hydro One to pay the departure tax goes to the OEFC and is then used to pay off debt. Is that not correct?

Mr. Serge Imbrogno: The OFA manages the debt on behalf of the OEFC and they would make whatever optimal payment—they might hold it in cash, they might have bonds that are due, and over time they would pay it, but it would be to the credit of the OEFC.

But the province, as a whole—it's cash that matters to the OFA in terms of managing the cash, and they would have $2.6 billion that they would have paid out and they would have received $2.6 billion.

That $2.6 billion for the departure tax would be to the reduction of the stranded debt—that account of the OEFC. So there's a distinction between the cash and the accounting.

Mr. Peter Tabuns: What I understand, from what you've said, is that we have $2.6 billion in cash that can be spent on a wide variety of things. It goes through this process of conversion and it's used to reduce the debt that the OEFC is currently responsible for: the residual stranded debt. Correct? We've converted working capital into debt retirement.

Mr. Serge Imbrogno: No, we've made the initial injection into Hydro One to acquire additional equity in the company. So we're down cash and we're up an investment, and that's neutral. Then Hydro One uses that money to pay their departure tax. So on a cash basis we're neutral and on a fiscal basis we're neutral.

Mr. Peter Tabuns: See, I have a very different interpretation. I guess that's obvious. We have $2.6 billion that we give to Hydro One. At its departure from ownership by the province of Ontario—we're going to become a minority owner, not the majority 100% owner that we are today—they get that $2.6 billion, money that they would normally have to give to reduce debt, money that is deferred tax payments they get to keep, and the province's money gets circulated to OEFC to pay down debt.

So the province has moved $2.6 billion from one pot to another, but Ontario's overall debt has not been reduced. Hydro One has this huge benefit that its investors will get to enjoy for years to come.

Mr. Serge Imbrogno: Maybe we need just to finish it, because the departure tax is only triggered when we're actually pursuing the transaction. The immediate next step is the sale of the shares, and that's where the province would then get its proceeds to invest into infrastructure. All these things are sequential, but in the end, it's the transaction, selling the 15%, that gives the province the proceeds to make the investment in infrastructure.

Mr. Peter Tabuns: And it will get $9 billion, or that is what has been projected so far?

Mr. Serge Imbrogno: The 15% is the initial transaction—

Mr. Peter Tabuns: No, I understand that.

Mr. Serge Imbrogno: Over time, there will be the sale of the 15%. But it's the proceeds that we've been focusing on. I think the number that has been in the public domain is in that $4-billion range over the four years.

Mr. Peter Tabuns: The operations of the corporation are such that it will benefit from the $2.6-billion injection of capital. It won't actually lose any to pay off the debt that was accumulated and held by the people of Ontario. Its rates will not be adjusted by the OEB to show this very generous gift on the part of Ontario. I don't see how we don't lose out on this.

Hon. Bob Chiarelli: Correct me if I'm wrong; I'm going to try and explain it maybe a different way. Hydro One is selling shares to the province. That's number one. They need the money to pay the tax, so they're selling shares to the province. The province buys those shares and puts $2.6 billion into Hydro One. Hydro One uses that to pay the tax.

We have those shares, and those shares are part of what we sell to the public to realize cash back towards the $4 million.

Mr. Peter Tabuns: I understand how you structure that, Minister, but we own 100% of it now. We're going to sell off 60% of it, and the new owners will have years of a tax holiday paid for by the province of Ontario. The province of Ontario will be down $2.6 billion in operating cash and it will have reduced the debt by $2.6 billion. But the investors get to keep that gift, something that is not recovered against them by the Ontario Energy Board and is not passed on to the customers.

Hon. Bob Chiarelli: Sharon?

Ms. Sharon Geraghty: I'll try. At the time the departure tax is paid, it really is paid. That cost is not anticipated to be imposed on ratepayers. When the province then puts the $2.6 billion in, it owns 100% of the shares. Yes, it still owns 100% after it puts the $2.6 billion in, but the assets of the company have gone up by $2.6 billion. As both the minister and the deputy said, as those shares are sold, the province will have the benefit of the additional value because they hold all the shares to which that $2.6 billion is attributed.

From that perspective, the $2.6 billion that's invested in the company isn't given away to anybody; it's invested in the company, and it increases the value of the shares that the province owns.

Mr. Peter Tabuns: I understand the argument you're making.

Ms. Sharon Geraghty: And the tax savings are enjoyed by all the shareholders, including the province.

Mr. Peter Tabuns: Right, which will be a minority shareholder.

Ms. Sharon Geraghty: But at the time that the tax asset is created, the province will own 100% of it. It sells off the shares and it reaps the value through the sale price. In some places, when it sells a tranche, it reaps value through the capital gain on that tranche. It reaps value through the increased value of the shares it sold. For the shares it retains, it continues to enjoy the value of those—that money being in the company—until it chooses to sell another tranche.

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Mr. Peter Tabuns: I think we're going to interpret this in two very different ways. I see this as a very large gift to these private investors. They will not have to pay tax. It will accrue to them as a benefit. The prospectus says that the OEB will not pass on those savings to ratepayers, that it will stay with investors, and I don't see that as a benefit to the people of Ontario—

Ms. Sharon Geraghty: Investors have to pay for the shares.

Mr. Peter Tabuns: That's true, and they will make money on that investment, money we could have made, and it will be gone.

I understand there are two pieces that we're looking for in terms of the return from the sale of 60% of this company: $4 billion for infrastructure, which is, out of $130 billion that's going to be spent on infrastructure, a fairly small percentage, and $5 billion for debt reduction. What particular debt is that $5 billion going to be devoted to reducing?

Hon. Bob Chiarelli: Deputy?

Mr. Serge Imbrogno: Right now, there's the book value of Hydro One that's on the province's books. As you sell 60% of the shares, you would first pay off the book value. That would be that portion of the debt, so we'd pay off debt with that. Anything above the book value would be dedicated toward the Trillium Trust.

Mr. Peter Tabuns: I'm sorry?

Mr. Serge Imbrogno: Anything above the book value would be dedicated to capital gain, so to speak. It would be devoted toward the Trillium Trust to pay for infrastructure.

Mr. Peter Tabuns: Is the $5 billion going to reduce the debt that is still owed for the old Ontario Hydro? Is it going to reduce the residual debt, the stranded debt?

Mr. Serge Imbrogno: It's not part of the stranded debt. It would be part of our investment in Hydro One. I think when there was the initial restructuring, there was a debt-for-equity swap, so I think it would pay down that initial debt.

Mr. Peter Tabuns: It won't go to the stranded debt?

Mr. Serge Imbrogno: No, it's not part of the stranded debt. For the lack of better words, it's a supported debt by the asset of the company, so it's not part of the stranded debt.

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

Mr. Peter Tabuns: Thank you, Chair.

I'll come back to you on those issues.

What would happen to this deal if there were any injunctions or lawsuits filed as a result of the government's failure to consult with First Nations, as it is constitutionally obliged to do? This was identified as a risk factor in the prospectus.

Ms. Sharon Geraghty: I can only restate the risk factor. The risk factors did not state that the government was obliged to consult. It indicated, as we are required to do in a prospectus, risks. It acknowledged that that comment had been made and that there was a risk, but that doesn't mean that the government believes that that will happen.

Mr. Peter Tabuns: And if it were to happen?

Hon. Bob Chiarelli: If I can respond to that with a policy decision or direction for the government: I've had some discussions, with my staff, with Chief Day, chief of the Chiefs of Ontario. We intend to discuss the issue of some ownership in Hydro One on the part of the Chiefs of Ontario. We have provided capacity funding to them to hire financial advisers, legal advisers for the table that we are creating. We've had significant telephone consultation with representatives of the chiefs. We're working toward future meetings to discuss the issue. We believe that there is a place, that there is a policy that should be there to account for First Nations participation in the initiative.

This is not Hydro One. It won't be the new Hydro One initiative. It will be through the province as shareholder as we go through the IPOs and different stages of the IPOs. We are not at a point of discussing amounts or nature or how we could collectively cause that to happen, but we're at the table in a very respectful manner and we think we'll be able to achieve an accommodation.

Mr. Peter Tabuns: And can you tell us when the consultations started with First Nations on this matter?

Hon. Bob Chiarelli: We have been having, over the course of the last year, year and a half, consultations with the First Nations table on a range of different issues, including their economic development-related issues relating to energy and how there could be additional participation.

The Chiefs of Ontario, about a month and a half or two months ago, at a meeting in Thunder Bay—that's when we had the first meeting with Chief Day and his advisers to initiate a process to deal with this. As I said, it's respectful, meaningful and it's very important to us on the government side that the First Nations have the capacity so that they now have the capacity to retain among the best financial consultants and advisers in the province, and legal counsel as well. We're anticipating, before the end of October, to have an opportunity to sit down with them again.

Mr. Peter Tabuns: Okay. How much time do I have left?

The Chair (Ms. Cheri DiNovo): About a minute.

Mr. Peter Tabuns: About a minute.

The question of maintenance of a 40% ownership share in Hydro One: I understand that the province's share purchases are subject to cabinet approval. So presumably if more and more shares are being issued, cabinet will have to decide whether or not to maintain its 40% ownership. How—

Hon. Bob Chiarelli: No, no. We've legislated that the province has to keep a floor—a minimum of at least 40% ownership moving forward. That's in legislation.

Mr. Peter Tabuns: So you will be compelled—no matter how many shares are issued, the province will be compelled to buy more shares? Is that correct?

Mr. Serge Imbrogno: It would be compelled to take action, but the when and how is still subject to cabinet and estimates and so on. There is an obligation to do it; it's just that it doesn't say that you have to do it the next day. It's just a time that the government can do that.

The Chair (Ms. Cheri DiNovo): I'm afraid we're going to have to stop there. I understand there's agreement among all parties that we're going to take a five-minute recess; is that correct?

Mr. Peter Tabuns: Sure.

The Chair (Ms. Cheri DiNovo): So we'll be back here at 5:03.

The committee recessed from 1658 to 1703.

The Chair (Ms. Cheri DiNovo): Time to come to order, friends, brothers and sisters. Thank you.

We are now going to go to the government side. They have 20 minutes.

Ms. Sophie Kiwala: It's very nice to be here again and learn more about energy and listen to the discussion today, so I'd like to thank the minister's staff as well for providing your expertise and knowledge.

Specifically, today I'd like to talk about Bill 112, the Strengthening Consumer Protection and Electricity System Oversight Act, 2015. Minister, I know that Ontario is focused on ensuring that electricity ratepayers are thoroughly protected by the Ontario Energy Board. I am aware that you and your ministry currently have a bill before the Legislature. We've spent a fair bit of time discussing it in the chamber: Bill 112, the Strengthening Consumer Protection and Electricity System Oversight Act. This is one of the bills that we have been discussing that is certainly something that I think appeals to many MPPs because it is protecting our consumers and our constituencies. We've all heard stories about vulnerable constituents, sometimes seniors, who are laid victim to high-pressure sales tactics at the door, which is a problem because it affects their bottom line. Sometimes that line is something that needs to be protected as well.

You've done several things as well within Bill 112 to improve those protections for consumers, such as increasing the cooling-off period from 10 to 20 days, which is excellent, but, Minister, I'm wondering if you could inform us about this proposed legislation and what it would do to strengthen consumer protections. What other things are there within that bill that will protect consumers?

Hon. Bob Chiarelli: Thank you for the question. Of course, we had some second reading debate on that particular issue. I appreciated the level of support from my energy critic, the member from Renfrew–Nipissing–Pembroke. I understand that he's even supportive of the legislation and he's considering doing some amendments to it. That's good news to see that we have that type of collaboration on a very important bill.

The bill deals with a number of different issues, including strengthening consumer protection and the electricity system. It also confirms and/or enhances the ability of the province to ensure that, in spite of the Hydro One initiative, we would have the power in cabinet to initiate, of our own volition, the necessary transmission infrastructure that might be required in the future. It also deals with confirming what the Supreme Court of Canada confirmed a couple of weeks ago: the real, substantive power that the Ontario Energy Board does have to regulate the rates in Ontario.

We're enhancing the capabilities of the Ontario Energy Board to ensure that it continues to have a robust set of tools to regulate the energy industry and protect consumers. Some of the main legislative amendments being proposed include measures to enhance consumer protection, provide further opportunities for consumer advocacy, clarify the activities that could be undertaken by LDC affiliates, extend OEB's emergency powers to transmission, enhance the oversight of utility transactions, and provide the government with the ability to prioritize critical transmission infrastructure.

If passed, this legislation would enhance consumer protection. The proposed Strengthening Consumer Protection and Electricity System Oversight Act, 2015, includes changes to the Energy Consumer Protection Act, 2010, that would provide enhanced protection to Ontario energy consumers in their dealings with electricity retailers and gas marketers. The proposed changes would provide consumers with the ability to make informed choices about energy purchases and would prohibit electricity retailers and gas marketers from selling energy contracts at the consumer's home but still allow the retailers and marketers to engage in advertising activities at the door. They just can't sign a contract there.

It will allow the government to make rules governing aspects of the door-to-door advertising activities in regulation. It ensures that all contracts, including those entered into over the Internet, are subject to a verification process. It would extend the cooling-off period during which consumers can cancel an energy contract without penalty from 10 to 20 days.

It's very important—and I think everyone in the room, particularly the MPPs, are aware of the fact—that there are people who answer doors who are not familiar 100% with technical language or the English language. A lot of them are seniors who might be vulnerable when it comes to contracting. That's kind of what's underlying that part on the initiative.

The legislation also includes proposed changes to the Ontario Energy Board Act, 1998, that would provide the OEB with the ability to levy higher and more flexible penalties for contraventions of its rules and legislation.

The proposed legislation would, if passed, help advocates for consumers. Ontario is proposing legislative enhancements that would require the OEB to establish processes to enhance the representation of consumer interests at OEB proceedings. This would provide additional opportunities for consumer representation.

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If passed, the legislation would clarify the role of LDCs and their affiliates. Currently, legislation restricts the business activity of affiliates of municipally owned LDCs, but does not include any such restrictions on the business activities of non-municipally owned LDCs. Proposed enhancements would remove the restrictions on the business activities for affiliates of any municipally owned LDCs, putting them on the same footing as privately or provincially owned LDCs. Basically, the holding companies—of which all LDCs have one—would have a lot more leeway to engage in energy business activities, which could include going into renewables, and could include going into energy product lines that would help the bottom line for municipal LDCs.

The proposed legislation would also extend the OEB's emergency powers to transmission. Currently, legislation provides the OEB with emergency powers to ensure that continuity of service for distribution company customers would continue in the unlikely event that an LDC could no longer carry out its responsibilities. Under the proposed legislative enhancements, these powers would be extended to transmission companies. In addition, some enhanced powers to head off a potential failure of an electricity utility to carry out its responsibilities have also been introduced.

If passed, this legislation would enhance oversight of utility transactions. The current legislation requires the OEB to examine a transaction that allows someone to gain more than 20% control of voting securities of a transmitter or distributor. The proposed legislative amendments reduce this to 10% to account for more widely held ownership anticipated in the future.

In addition, the proposed legislative amendments would require that distributors maintain their head offices and records in Ontario.

The proposed legislation would also assist in the timely creation of transmission infrastructure. Currently, if a transmission project is identified as a priority project—in, for example, the long-term energy plan, as approved by cabinet—the OEB must re-evaluate the need for these projects when they apply for approval from the board, essentially duplicating work that has already been done. These proposed enhancements would provide cabinet with the clear authority to identify priority transmission projects and eliminate the requirement for the OEB to spend further time on the basic principle of need.

All other elements of the OEB's existing approval processes, including reviewing costs for prudence and allocation, would remain in place. This measure would help to reduce duplication of work between the Ministry of Energy and the OEB in moving forward in building key transmission infrastructure in Ontario.

If passed, Bill 112 would enhance the OEB's powers to ensure it continues to have a robust set of tools to regulate the sector and protect consumers. I hope the members of the third party will join the official opposition in supporting Bill 112 to help further protect ratepayers.

I indicated earlier that the OEB has been given very significant additional powers to impose penalties if any distributor or transmitter is in contravention of any of the rules. We've actually adopted the level of penalty that's in the Ontario Securities Commission. If a regulated public company contravenes the rules—and this would also apply to the new Hydro One, as a regulated company—the penalty would be $1 million per day. So that's very, very significant protection for the consumer and the ratepayer.

I would now like to ask Deputy Minister Imbrogno and ADM Michael Reid from the strategic, network and agency policy division to expand further on the issues regarding this legislation.

Mr. Serge Imbrogno: Thank you, Minister. I'll ask Michael Reid, ADM of the division, to come up. I think we'll do a bit of a deeper dive on some of the changes that are being proposed.

Hon. Bob Chiarelli: Can we have a time indication?

The Chair (Ms. Cheri DiNovo): You've got about nine minutes left.

Hon. Bob Chiarelli: Nine minutes? Thank you.

Mr. John Yakabuski: I'm sure you'll use it.

Hon. Bob Chiarelli: Sorry?

Mr. John Yakabuski: I'm sure you'll use them all.

Hon. Bob Chiarelli: Oh, you're not asleep yet?

Mr. Michael Reid: I'm Michael Reid at the strategic, network and agency policy division at the Ministry of Energy. I guess what I propose to do is to provide a little bit more detail on some of the key elements of Bill 112 that have been outlined by the minister, maybe starting with the consumer protection dimension.

The parts of Bill 112 that deal with consumer protection amend the Energy Consumer Protection Act. This act has been in place for a number of years and was put in place originally to govern a lot of aspects of retailing, but most particularly electricity retailers and some of the door-to-door behaviour.

Following a report by the Ontario Energy Board on electricity retailers that they did at the request of the minister, Bill 112 proposes a number of things. As the minister has mentioned, it would actually ban the selling of contracts on the doorstep. It would allow marketing activities, but people cannot actually sign contracts on the doorstep.

The bill would also, if passed, allow the government to put in place regulations that would govern additional activities at the doorstep; for example, the time of day that a retailer could go to the doorstep. The ministry is, at this point, as well, consulting on what those regulatory changes could look like.

As the minister mentioned, it also has verification procedures. Currently, all contracts that are signed at the doorstep require third-party verification. Bill 112 proposes to extend that to all retail contracts, whether that's over the phone, Internet and so on.

Lastly, another key feature: Currently, the Energy Consumer Protection Act has a 10-day cooling off period, so a customer can sign a contract and then has 10 days to reconsider and get out of that contract without penalty. The proposed bill would extend that to 20 days. That mirrors some other provincial legislation, as well, with respect to things like hot-water heaters, for example.

I think it's a pretty strong regime to help consumers with some of the aggressive practices and, as I've already mentioned, they're also very informed by about a year's worth of thought that the Ontario Energy Board did on the consumer protection regime and some of the enhancements that could be made to that regime.

In terms of the second component on consumer advocacy: Bill 112 proposes to give cabinet the ability to actually prescribe what consumer advocacy practices could look like or should look like at the Ontario Energy Board. The Ontario Energy Board is out thinking of new ways to integrate consumers into its existing processes. It has a number of initiatives under way to do this, so I think the expectation is that the Ontario Energy Board is in the process of enhancing consumers' voices directly in its procedures. These powers, although on the books, will likely not have to be used. This mirrors legislation in a number of other provinces as well, where the government does have regulation-making power to outline what consumer advocacy could look like.

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

Mr. Michael Reid: As the minister has mentioned, there were a number of measures on continuity of service. One of the other components of Bill 112 that I would flag is that it proposes to give the Ontario Energy Board the ability to appoint a supervisor if a utility is seen to be struggling. Right now, the board has the ability to basically step into the shoes of a distributor. This would be a new tool that, if there's a bit of a distant early warning that things aren't going well, would give the board a little bit more of a flexible tool to have a supervisor come in and help right things. Again, the expectation is that these tools would never have to be used or hopefully would never have to be used, but I think that flexibility is important.

Currently the Ontario Energy Board and agencies like the Electrical Safety Authority do share information when it comes to safety-related issues. It's just clarifying in the bill that, when it comes to safety-related information, that sort of sharing of information can and should take place.

The minister has already mentioned the penalties. Maybe the only other thing that I would add is that the existing regime does cap the amount of penalties which Bill 112 would raise quite significantly.

1720

The other proposal in Bill 112 as well is that currently the board, in applying its penalties, has to use what's called a matrix, which is basically a grid that the board has to plot out any given infraction on. It seemed to be quite cumbersome and doesn't always allow the board to actually tailor a penalty to fit the specific infraction. Bill 112 would also do away with this grid. So it would both increase the penalties and then give the board discretion to make sure that the penalties that it levies in a certain case are consistent with the facts of the case.

The minister mentioned some of the oversight components of Bill 112 as well which I think are quite important. That includes making sure that all local distributors do have to maintain a head office, records and key personnel in Ontario as well as reducing some of the thresholds for the board looking at utility transactions. I spoke a little bit about that in talking about consolidation: that the board does do "no harm" tests. Bill 112 would propose to also allow the board to do that in a case where anyone is acquiring up to 10% of the shares of a utility.

The minister also talked about the provisions with respect to clarifying the roles and distinctions, I guess, between the sorts of activities that can be undertaken either directly in a utility or need to be undertaken through an affiliate. The current regime is fairly complicated. I think we heard from utilities that it can be fairly difficult to disentangle as well. We've heard that from the Ontario Energy Board.

What's proposed in Bill 112 would basically clarify that regime and give the Ontario Energy Board much more discretion in terms of allowing utilities to come forward to the Ontario Energy Board with proposals of new business activities that they would like to undertake directly within the regulated business. The board would conduct some sort of hearing and then ultimately make a decision about whether or not a utility can move forward with that or not.

Again, we think the proposals in Bill 112 take what's a relatively complicated and constraining framework and provide the board with a lot more discretion to allow utilities to put forward business cases for things that they would like to do.

Lastly, the minister also mentioned the proposals in Bill 112 with respect to critical transmission infrastructure. What the bill proposes is to provide cabinet the ability to designate a transmission project as a priority project. If you look at the long-term energy plan, for example, there were four priority projects outlined in that plan: the east-west tie, the northwest bulk transmission line, a new line to Pickle Lake, as well as the connection of remote communities.

What these enhancements would do is, as the minister noted, if cabinet does designate a project as a priority through this tool, the Ontario Energy Board would not need to undertake a needs assessment of the line. It does eliminate a lot of overlap and duplication that exists. But, as the minister also mentioned, the remaining board procedure would remain in place as is.

The board, when they consider transmission applications, does a number of different things, including assessing the prudence of any costs incurred by a transmitter in the development of a line. The board also looks at how costs should be allocated across the system depending on the nature of the line and the nature of the connection. The board also does get into routing and some of those other things through section 92, and a number of other transmission approvals processes—

The Chair (Ms. Cheri DiNovo): Thank you, Mr. Reid. I'm afraid your time is up.

We are going to move to the official opposition for 20 minutes: Mr. Yakabuski.

Mr. John Yakabuski: Yes. Thank you very much, Chair.

Boy, that was obviously a complicated question. It took 30 seconds for the question and 19 minutes and 30 seconds for the answer.

I want to compliment the minister because this is now the third time that I have heard his speech on Bill 112: twice here at the committee and once in the Legislature. I must say, your delivery is getting better all the time. You're working on it. If we hear that speech on Bill 112 one more time here at estimates—

Hon. Bob Chiarelli: If you want to move unanimously to eliminate estimates, I'm happy.

Mr. John Yakabuski: I know that you're going to have it down completely, just right to a T.

Anyway, that's all I wanted to comment: that it was just a wonderful job of delivering that speech again. I'm going to pass it to my colleague, Mr. Smith.

Mr. Todd Smith: Thank you for getting that on the record, Mr. Yakabuski—an excellent job penalty-killing again by the minister, for sure.

Mr. John Yakabuski: Oh, he is a penalty-killer; there's no question about it. He was killing me.

Mr. Todd Smith: When we were last chatting, we were cut off because we ran out of time. We were talking about the most reliable sources of electricity in the province, and I believe, and I don't want to put words in your mouth, but you said that nuclear was probably the most reliable, right? It provides our baseload power in the province, and I believe you're a big fan of nuclear power and it's been very reliable.

Hon. Bob Chiarelli: A priority for our government, yes.

Mr. Todd Smith: Yes, it's been a good source of baseload power for the province, and reliable and safe, and it's probably the direction that we should be going in.

Then we started talking about unreliable: What is the most unreliable power source that we have in the province? Wind would probably fit the bill for being the most unreliable power source that we have making up our grid?

Hon. Bob Chiarelli: Yes, the IESO recommends a supply mix that provides tools for them to help operate the system. One of the key elements is reliability. As I indicated, wind forms a very, very small percentage of our overall generation in the scheme of things, but it is clean. It is now, contrary to what your colleague from Pembroke–Nipissing–Renfrew—

Mr. Todd Smith: Renfrew–Nipissing–Pembroke.

Hon. Bob Chiarelli: —has said, it is dispatched now. It's dispatchable, and it is being dispatched. It's not paid for unless it is actually used in the system.

There are two issues that impact on renewables, and it's generally accepted across the industry; that is, number one, that the cost is more expensive, and, number two, it doesn't have the reliability because you don't know when the wind is going to blow or when the sun is going to shine.

Mr. Todd Smith: So why do we need it?

Hon. Bob Chiarelli: We need it because, number one, it has the level of reliability—it's not the most reliable. That's number one. And it's clean; that's number two. And it's now dispatchable, which is an improvement. But I will tell you that if you look across North America and Europe, you will see almost every jurisdiction installing wind power. The implication is that Ontario is being irresponsible, and the reality is that every jurisdiction in the world is engaging in wind. The reality also is that the price of wind now has come down to where it's virtually at grid parity, and we're waiting very anxiously for the prices of the current procurement, which will come out before the end of this year, which will show that it is equally affordable in the system.

Mr. Todd Smith: But it's the least reliable. I mean, if you were going to build a perfect energy system in the province of Ontario, you wouldn't have wind in the system, because it is unreliable. You don't know when the wind is going to blow, and the perfect example was this past weekend. It was very, very windy overnight Friday and into Saturday, between 1 o'clock and 5 o'clock in the morning, Saturday morning. Wind accounted—and this is from the National Post. Wind accounted for 12,481 megawatts of power early Saturday morning, of electricity. What we actually needed for total demand during that time was less than that: 11,000 megawatt hours of power. That ended up costing provincial ratepayers, did it not, to pay for that power? How much would that have cost?

Hon. Bob Chiarelli: I can't give you the price of that, but what I can tell you is that was a very exceptional circumstance and you will not be able to find one other time when that occurred. That was an aberration, and, as well, one of the nuclear units went down. Another one was down for some repairs. So it was an exceptional circumstance that caused that to happen.

Mr. Todd Smith: But we're paying other jurisdictions all the time to take our power, our excess power. All the time we're paying, because we don't have control, especially when wind is blowing. We have no control over that.

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As far as your comment on other jurisdictions, we've seen all kinds of other jurisdictions back away from wind power because it's not reliable and it's not affordable for the ratepayers in their jurisdiction. Britain is the perfect example of where that has occurred, and it has happened very recently in Nova Scotia, where governments have backed away because, in the words of Amber Rudd, who's the UK energy secretary, "We have a long-term plan to keep the lights on and our homes warm, power the economy with cleaner energy, and keep bills as low as possible for hard-working families." She said this as they're backing away from onshore wind subsidies.

Hon. Bob Chiarelli: There's a transformation that's happening with respect to wind. Part of it has to do with the cost coming down to where it's very normal, dispatchable, which is very normal. The other thing that's very transformational is the level of support that is starting to grow in rural Ontario for wind.

Mr. Todd Smith: Where?

Hon. Bob Chiarelli: For example, in Carleton–Mississippi Mills, one of the most rural ridings—and the member there is obviously on the party line and very, very opposed to renewable energy, but there was a municipality there that passed a unanimous resolution to support a wind project.

Mr. Todd Smith: Yes, but you know what's happening there, Minister—

Hon. Bob Chiarelli: If you look at Oxford county, Oxford county passed a unanimous resolution saying that they want to go 100% renewable.

Mr. Todd Smith: Minister, you know what's happening there, though. The companies are paying the municipal councils money. They're bribing municipal councils to take these projects. That's what's happening.

Hon. Bob Chiarelli: In Chatham-Kent, the council supported a wind project. I might add as well that at the AMO conference, the Association of Municipalities of Ontario, where in past years I would get six or seven questions with respect to renewable energy, this year there was not one question on the accountability session that came from rural communities or anywhere else on energy, renewable or otherwise. So there's a transformation going on—

Mr. Todd Smith: No, there's no transformation, Minister—

Hon. Bob Chiarelli: There's a tremendous transformation going on.

Mr. Todd Smith: The municipalities are being bought off by the big companies. Not only are you an excellent penalty-killer; apparently you're a pretty good stick-handler as well. Your rural municipalities are being paid off. You know that that's what's happening.

I have a municipality in my riding that is receiving $100,000 a year for 20 years from a wind power company to put solar on prime agricultural land. The people in the municipality are fed up. The same thing is happening in Addington Highlands, where a wind installation is being proposed there. That municipality has been bought off by the company. The people in the community are fed up. They're livid. They don't want this in their community.

You know very well what's happening in Prince Edward county, the municipality that I represent, which happens to be one of the top tourism draws in the province. They're an unwilling host, and they have two projects that are being forced on them. The government continues to force these projects on unwilling host communities.

Those who work in the energy sector—and I know you talk to them, Minister—say that solar and wind are creating more problems for the grid than helping the grid. So why are you continuing to force these projects in unwilling host communities?

Hon. Bob Chiarelli: I have a couple of comments about your preamble and the premise of your question about communities. I would certainly like for you to give me the names of the municipal councils who have been bribed. I would like to send them a letter and ask them if they believe they were bribed. I wonder how many of these respected municipal councils in your riding have been "bribed."

The other issue is in terms of community benefits that are provided. For nine years I was the chair of the regional government in Ottawa-Carleton and mayor of the city of Ottawa. If you go to the cities of Toronto, Ottawa or Hamilton and there's a proposed high-rise building in the community, they negotiate community benefits in order to get council approval moving forward. What you're describing with respect to wind is no different than the type of community benefit that a Minto construction or a major construction company would negotiate as part of the planning process.

Mr. Todd Smith: Minister, you've removed the planning process as a result of the Green Energy Act. They have no say in whether these are going in their community or not. All they can do is give the points—

Mr. Grant Crack: Wrong.

Mr. Todd Smith: It's not wrong.

Let's move on to another subject because I don't think we're going to get anywhere with this. Every organization in Prince Edward county, including the municipal council, has said they're an unwilling host community, yet you're continuing to force these projects on them. But let's move on.

You were talking earlier about the consolidation that took place with Brampton Hydro, and Mr. Reid and Mr. Imbrogno were speaking of that deal. The Brampton Hydro consolidation was done behind closed doors; there was no open and transparent process around the sell-off of Brampton Hydro. One place where Ed Clark and his report didn't waver was its commitment to sell Hydro One Brampton. However, the utility was sold with little or no input from anyone, so how can you guarantee that you've received the best possible price when you didn't open it up to the market? This was done behind a big black curtain.

Hon. Bob Chiarelli: First of all, you talk about "done in private." Number one, the five or six municipalities involved, which include St Catharines, Hamilton, Markham etc.—they are having public meetings. They're got committee meetings of council, and council will have the absolute opportunity to accept or reject. So in terms of public engagement, the ultimate decision is absolutely left in the hands of the municipalities and the LDCs that are involved in the process.

The other issue that you talk about: Number one, the consolidation that came together was extremely unique in the sense of a consolidation. It couldn't have been replicated, and that's why it went forward. It went forward with a lot of public consensus that this was the right way to go as well.

Mr. Todd Smith: If you go public, which you have now—the IPO is out for Hydro One; the first 15% is out—the goal is to get as much money for the province as you possibly can, in this initial public offering, to start to pay for infrastructure projects. That is the goal, right? So how can you sit here today and tell me that you believe that you got the best bang for the buck in Brampton?

Hon. Bob Chiarelli: I'll turn it over to the deputy.

Mr. Serge Imbrogno: I'd say on Brampton that there are a number of objectives that the government is trying to reach. We've talked a lot about the LDC consolidation, where we think there are a lot of efficiencies that we could achieve in the system. I think this is an opportunity where we can maximize our proceeds and, at the same time, we can get some important consolidation going on in this sector. We think that once that happens, it will lead to more consolidations across the province. So we see this as achieving our fiscal objective of getting maximum proceeds, but also achieving energy policy objectives to get more consolidation. We think it balances both.

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

Mr. Todd Smith: Thank you, Chair.

This was Ed Clark's project. He announced this, and he didn't bring it to the open market. Were you in favour of him going in this direction?

Hon. Bob Chiarelli: First of all, it's not Ed Clark; it's the whole asset council, which was a group of very well-informed individuals who were very interested in maximizing asset value, because that's why the whole process is going forward. Whether it's with respect to the Beer Store or the IPO or the sale of Brampton, it's to maximize the value of the assets. They did very extensive evaluations internally in terms of coming up with the appropriate price, if I can put it that way—

Mr. Todd Smith: And who determined that?

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Hon. Bob Chiarelli: The legwork was done by the asset council and it was presented to the government. The decisions to do what we're doing were made by Treasury Board and cabinet on the advice—

Mr. Todd Smith: So you approved of going this route?

Hon. Bob Chiarelli: I was proud to approve them. They were very good for the province, very good for consolidation and very good for the ratepayer because, as we indicated, consolidations will end up benefiting the ratepayer in terms of better service and in terms of a better return to their municipal shareholder. So it's a win-win-win in many cases.

The other issue is this: It has not been finalized yet. It has to go to councils; councils are debating it. You know very well that there are some councillors in some municipalities who are opposed and they're organizing meetings, etc. It's very public. It's very democratic and that's the way it should be.

Mr. Todd Smith: But you're not respecting the decision of councils in other areas. It's funny how you can respect the decision of councils in some aspects of the Hydro sell-off, but in other areas you're not respecting the wishes of municipal councillors who are closest to the ground and know what their communities want.

Hon. Bob Chiarelli: If you want to do an analogy again, if you want to look at urban development, councils don't control what happens. People can appeal to the Ontario Municipal Board and it's dealt with in that particular process. Can you say that a municipal council has control over every development in a particular municipality? The answer no.

Mr. Todd Smith: No, they have no control over green energy projects. We know that.

Hon. Bob Chiarelli: There's a process and it goes to appeal. In the energy sector there's a process and it goes to appeal. They have an appeal process. It's no different than a development in an urban area going to the Ontario Municipal Board for an appeal.

Mr. Todd Smith: It is different.

Industry stakeholders, I understand, had an interest in the Hydro One Brampton sale. Were other industry stakeholders involved in this or just a small group?

Hon. Bob Chiarelli: No, there was a very thorough evaluation done by the asset council, by more than one evaluator, and they also looked at—there's been some consolidation that's already gone on by Hydro One. One of them just closed the other day. Which one was it?

Mr. Serge Imbrogno: Woodstock.

Hon. Bob Chiarelli: Yes, Woodstock. It just closed. There are measures of value per customer and there is a very, very small number of indications of value for LDCs, and it's not hard to find them and nail that down. That's the evaluation process.

Mr. Todd Smith: Industry stakeholders: If you had opened up Brampton to Hydro One, you don't believe you would have received more for the asset?

Hon. Bob Chiarelli: As the deputy said, there were other objectives. We would not have had consolidation, and consolidation is very, very important for ratepayers across the province.

Mr. Todd Smith: Were industry stakeholders not told that they were going to have an opportunity to bid on Brampton? Did you not tell them that they were going to have an opportunity to bid on the sale of Hydro One Brampton?

Hon. Bob Chiarelli: There was no process that was laid out in any official, technical way or otherwise.

The Chair (Ms. Cheri DiNovo): I'm afraid we're going to have to leave it at that. Thank you very much.

Moving on now to the third party. Mr. Tabuns, 20 minutes—actually, 15.

Mr. Peter Tabuns: Just to return to this whole matter of the province's maintenance of 40% ownership of Hydro One: The first question that occurs to me is, why was there a provision in the budget bill that said that when the province's ownership drops below 10%, it's not able to then buy back and go up to 20%, 30% or 40%? It becomes like any other shareholder. If it's impossible to drop below 40%, why that provision?

Hon. Bob Chiarelli: I think that provision has been changed in the governance agreement. Basically, it mandates the province to maintain the 40%, so that option that you're talking about will not evolve. I'm going to ask counsel to talk to that.

Ms. Sharon Geraghty: That provision you mentioned is not in the legislation anymore.

Mr. Peter Tabuns: It's not in the legislation anymore?

Ms. Sharon Geraghty: No. The legislation requires, as the minister said, that the province cannot take any step to take its position down below 40%.

Mr. Peter Tabuns: And so if the majority of members of the board decide to issue more shares, does the province get to dictate the maximum price for those shares?

Ms. Sharon Geraghty: Let me take your question in parts.

If the company decides to issue additional shares for cash other than employee compensation or some small items, then the province would have what we call a pre-emptive right to acquire up to 45% of that issuance, and the province, if it was being done by way of a placement or a public offering, would have an opportunity to participate. It doesn't have to, but it has the right to do so.

Mr. Peter Tabuns: Well, just a second. If you're saying that in law they're required to maintain 40% ownership and they have the right to not take part in this placement, the potential is there for issuance of a large number of shares and dilution of the province's ownership.

Ms. Sharon Geraghty: First of all, let's start from the fact that after the initial tranche, the government would be at 85%. So one example might be that if there was an issuance of shares at that point, the province would not necessarily be anywhere near going below 40% as a result of that issuance. And then the other aspect of it, which the deputy mentioned, is that there's a further provision that if there is a share issuance that takes the province down below 40%—not through its own action, which it's not allowed to do, but because of an issuance by the company—then the province has to take steps to go back above 40% on the basis that the deputy described.

Mr. Peter Tabuns: And please restate those circumstances under which the province would have to take action.

Mr. Serge Imbrogno: It's in legislation that we have to; it's just that the province has time to do that. It just recognizes having to go to the Legislature, having to get approvals. So we're not forced to do it the day after. There's a reasonable period of time where the province can take action.

Hon. Bob Chiarelli: It's mandatory that we have to keep it at 40%.

Mr. Peter Tabuns: And so if the province is in a very difficult financial position and shares are issued, it will be compelled by legislation to buy 40% of those shares no matter what they cost, no matter the impact on provincial finances. Is that correct?

Mr. Serge Imbrogno: Well, I think that would be part of what the government of the day would have to take into account in determining when it would be best to purchase the shares to get it back up to the 40% requirement.

Mr. Peter Tabuns: Wait a minute here. So let's say in 2016 we're at 40%. The new company decides to issue a very large volume of shares. How many years does the province have to act on preserving its 40% ownership? Are we talking two years, 10 years?

Mr. Serge Imbrogno: I don't think the legislation is specific on a time frame.

Hon. Bob Chiarelli: No.

Mr. Peter Tabuns: So it could be over decades before the province came back up. Correct?

Ms. Sharon Geraghty: The legislation permits the government to decide when and how to go back up, but it does require it to go back up. There is a positive requirement that can't be ignored, and so at the extreme end you do have to still eventually have a plan to go back up to 40%. There is no stipulation of time as to when that has to happen.

Mr. Peter Tabuns: I haven't been around here for a long time—others have been around longer than me—but I have seen things stretch out over the years. Effectively, what you're saying to me is, there's a requirement for the province to have a plan to go back to 40%, but there's no deadline on that, so it could stretch out over decades.

Ms. Sharon Geraghty: I don't want to speculate as to how long the government might think it's wise to take to take itself back up to 40%. Again, starting from the perspective of being at 85% after the first tranche, the government does have significant control at that stage as to what its ownership level will be, because there's also no requirement for timing when it goes down below 85%, for example.

Mr. Peter Tabuns: Yes. No, I understand that, but what you've said to me is, there is this very, very large truck-drive-throughable loophole that would allow the province to say, "Okay, we've dropped below 40%. There's no definite time frame within which we have to come back up to 40%." It could be a decade. We could go through several elections with parties and governments promising to come up to 40% as soon as we've got the money to do it.

Ms. Sharon Geraghty: It goes back—I believe one of the rationales which you indicated when you asked your question initially was that it's important that the government be able to time that in a way that's prudent for the province.

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Mr. Peter Tabuns: That's right. If they don't have the money they won't be able to buy the shares. If you've got 60% of the directors saying, "We're going to issue new shares," and so for, let's say, a decade the province is below 40%, let's say it's down to 30% or 25% or 20%—I assume the voting rights follow the ownership. We don't continue to have 40% voting rights when we drop below 40%, do we?

Ms. Sharon Geraghty: Actually, you do for a period of time have—there is a cap, as you know, on the ability to nominate directors, and that cap is at 40%.

Mr. Peter Tabuns: Right.

Ms. Sharon Geraghty: If the government went down below 40%, it would take two further annual meetings before it would cease to be able to nominate 40% of the directors. In fact, there's a rounding element to it, so the directors have to be between 10 and 15 directors. If you do the math, the province could go as low as 35% and still be able to nominate 40% of the board.

Mr. Peter Tabuns: Okay. But if you were in a situation where you were down to 20% ownership—with your plan in place to show that you'd come back to 40% someday—we'd be in a position where 80% control was outside of provincial hands and there would be the ability to issue even further shares, on which the province would have to figure out timing on the purchase.

What you've said, and it's interesting to me, is that the door is wide open to driving down provincial ownership way below 40% with the provincial government of the day having a loophole, saying, "We can't do it right now. We don't have the cash right now. We're going to have to wait five years, 10 years, 20 years."

Mr. Serge Imbrogno: The legislation, as it's drawn, says that the minister "shall" take action. I think it respects the Legislature and the Lieutenant Governor in Council, so I think it's realistic that it says the minister "shall" do this, subject to receiving approvals from—

Mr. Peter Tabuns: From cabinet. And if cabinet says, "No, the prices are too high," the minister is discharged of his duty because he tried to do it.

Mr. Serge Imbrogno: If you're in the middle of a budget cycle, I think it's just being prudent in terms of where you are in a process as a government of the day. But it's drawn to say you "shall" take these actions.

Mr. Peter Tabuns: Deputy Minister, for what it's worth, if there isn't a deadline on that—you've been around for a while—things can be extended. Things can be stretched. Anyway, it's an interesting loophole. I didn't realize that existed. That's useful to know.

Another question: The only document we've seen showing why privatization is good for Ontario—why the privatization of Hydro One is good for Ontario—is Ed Clark's 42-page report. We haven't seen any other reports, analyses or documents on this. Is there a particular reason why we haven't seen detailed business cases showing why this privatization is good for Ontario?

Hon. Bob Chiarelli: Deputy?

Mr. Serge Imbrogno: Well, I think that was the job of the Premier's council to do the analysis and to provide advice to the government. That advice was provided and accepted by the government.

Mr. Peter Tabuns: Well, we saw two phases of the council's advice: one where the head of the council, Mr. Clark, gave advice to the Premier that they shouldn't sell off Hydro One. In fact, the Premier twice referred to Ed Clark in a question in the Legislature, saying, "He says it's bad news. We're not going to do this. That's not part of the picture." Then, a few months later, "This is the best thing that's ever happened to Ontario. I guess we're going to have to sell it off."

We haven't seen documents tabled publicly showing an analysis as to why privatization leaves us better off financially. Is there a reason for that?

Mr. Serge Imbrogno: I just go back to how that was the work of the Premier's council. That's why it was set up, to maximize our assets, to provide advice to the government on how best to proceed. The government has accepted that advice and is moving forward.

Mr. Peter Tabuns: I'll just say, Deputy Minister, I understand the words that you've put forward. I would say that for such a momentous decision, one would expect somewhat more substantial business analysis presented to the public, given to the Auditor General for a review, provided to the Financial Accountability Officer, who, I gather, has been denied access to files. It's an extraordinary way to run a multi-billion-dollar operation. For us as legislators responsible for overseeing it, to not have the background documents showing how this actually will benefit us—I don't believe it will, but I haven't seen the case on the other side that actually goes through the numbers.

Can I ask, what are the financial implications of a privatized Hydro One for the provincial government and municipalities regarding hydro corridor lands?

The Chair (Ms. Cheri DiNovo): Just to let you know, there's about five minutes left.

Mr. Peter Tabuns: Thank you.

Has there been an analysis done of the financial impact of change of ownership on those rights of way and ownership of land?

Mr. Serge Imbrogno: The hydro corridor lands are owned by the province and managed by Infrastructure Ontario.

Mr. Peter Tabuns: No, I don't think that's entirely true. I think some of them are easements. Is that correct, Minister?

Hon. Bob Chiarelli: The easements would be owned by Infrastructure Ontario or—

Mr. Peter Tabuns: Or municipalities or—I'm sure that some of these go over First Nations territories. Are they owned by Hydro One?

Mr. Serge Imbrogno: The corridor lands themselves are owned by the province. We maintain the ownership of the lands. So in terms of the easements, those would continue with the change of ownership. The Hydro One corridor, the management of it, would continue through IO, so there would be no change going forward.

Mr. Peter Tabuns: So there are no corridor lands at all that are owned by anyone else but Hydro One? Is that what you're telling me?

Mr. Serge Imbrogno: That are owned by the province. Now, I can make sure that's correct, but—

Mr. Peter Tabuns: I would appreciate it if you would check that.

Mr. Serge Imbrogno: My understanding is that we took control of the hydro corridor lands previously, in the 2002 attempted privatization. The government of the day took the hydro corridor lands as provincial.

Mr. Peter Tabuns: I would appreciate it if you would check that, and if we could note in Hansard that there will be a report back on who exactly owns the hydro corridor lands.

On another matter, the review of the intervener framework: In April, the OEB announced phase 2 of its multi-year review of the intervener framework. A letter notes that a number of North American jurisdictions have independent consumer advocates who are part of the regulator or in separate government departments. I notice with Bill 112, I think it is, that we're dealing with right now, that there's reference to changing the intervener system. What are you contemplating at this point?

Mr. Serge Imbrogno: That would be something the OEB is looking at. I think they are looking to enhance their consumer advocacy. They haven't come out with specific proposals, but we would work with the OEB to adopt that. I think the general principle is that we want more access for all consumers to be able to provide input into the OEB. Right now we have some specialized interveners. I think the OEB wants to look at expanding that—not restricting who we have now, but expanding it to include more consumers and more consumer groups.

Hon. Bob Chiarelli: The OEB right now is in the process of consulting with a whole range of intervener public-interest stakeholders to see how the engagement could be increased. They're looking at providing more intervener funding and resources for stakeholders. I think the direction and I think the result rests in the hands of the OEB. It's an independent agency. I think it would be well accepted by stakeholders as a significant improvement.

Mr. Peter Tabuns: Just in terms of this, does the OEB write its own rules on the interveners or is it regulated by regulations put forward by the government?

Mr. Serge Imbrogno: The OEB, within the legislative construct that we've set, would then have the authority to put forward what it believes is the best consumer advocacy function.

Mr. Peter Tabuns: Does that require your approval?

Mr. Serge Imbrogno: No. Once we've set the regulatory framework, then they would go and, within that, they would structure what they believe is the best way to accomplish that.

Mr. Peter Tabuns: And the regulatory framework at this point contemplates having consumer advocates appear before the OEB to intervene at hearings?

Mr. Serge Imbrogno: No. I think it contemplates allowing the OEB to review and to determine how it should broaden consumer representation.

Hon. Bob Chiarelli: Right now, without any further changes, the OEB does have a process where the interveners are able to go to the hearings and publicly engage the process. It's a very significant part of the process.

The Chair (Ms. Cheri DiNovo): I'm afraid we're going to have to stop it there. We're going to adjourn until tomorrow at 3:45. Thank you all.

The committee adjourned at 1800.

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Mrs. Kathryn McGarry (Cambridge L)
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Mr. Christopher Tyrell

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