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**Tuesday 29 September 2015**

**Journal  
des débats  
(Hansard)**

**Mardi 29 septembre 2015**

**Standing Committee on  
Estimates**

Ministry of Energy

**Comité permanent des  
budgets des dépenses**

Ministère de l'Énergie

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## LEGISLATIVE ASSEMBLY OF ONTARIO

## ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

STANDING COMMITTEE ON  
ESTIMATESCOMITÉ PERMANENT DES  
BUDGETS DES DÉPENSES

Tuesday 29 September 2015

Mardi 29 septembre 2015

*The committee met at 0900 in room 1.*

## MINISTRY OF ENERGY

**The Chair (Ms. Cheri DiNovo):** Welcome. The committee is about to begin consideration of the estimates of the Ministry of Energy for a total of 15 hours. As this is the first ministry before the committee, I would like to take this opportunity to remind everyone that the purpose of the estimates committee is for members of the Legislature to determine if the government is spending money appropriately, wisely and effectively in the delivery of the services intended.

I would also like to remind everyone that the estimates process has always worked well with a give-and-take approach. On one hand, members of the committee take care to keep their questions relevant to the estimates of the ministry, and the ministry, for its part, demonstrates openness in providing information requested by the committee.

As Chair, I tend to allow members to ask a wide range of questions pertaining to the estimates before the committee to ensure they are confident the ministry will spend those dollars appropriately. In the past, members have asked questions about the delivery of similar programs in previous fiscal years, about the policy framework that supports a ministry approach to a problem or to service delivery, or about the competence of a ministry to spend the money wisely and efficiently. However, it must be noted that the onus is on the member asking the question to make the questioning relevant to the estimates under consideration.

The ministry is required to monitor the proceedings for any questions or issues that the ministry undertakes to address. I trust that the deputy minister has made arrangements to have the hearings closely monitored with respect to questions raised so that the ministry can respond accordingly. If you wish, you may at the end of your appearance verify the questions and issues being tracked by the research officer. Any questions before we start?

I'm now required to call vote 2901, which sets the process in motion. We will begin with a statement of not more than 30 minutes by the minister, followed by statements of up to 30 minutes by the official opposition and 30 minutes by the third party. Then, the minister will

have 30 minutes for a reply. The remaining time will be apportioned equally amongst the three parties.

Minister, the floor is yours.

**Hon. Bob Chiarelli:** Thank you very much, Chair DiNovo. Good morning, everyone. Welcome to all for what I think will be an intimate 15 hours together. So we look forward to the time.

First of all, I'd like to start by introducing the senior ministry officials here with us today: deputy minister, Serge Imbrogno; assistant deputy minister of the energy supply division, Steen Hume; assistant deputy minister of the conservation and renewable energy division, Kaili Sermat-Harding; assistant deputy minister of strategic network and agency policy division, Michael Reid; and assistant deputy minister of corporate services, Rob Burns. We do have an additional person at the table, and she's our special counsel dealing with Hydro One issues. As we get into those issues, she will just give a very, very brief overview of the Ontario Securities Commission requirements with respect to the prospectus and what anyone associated with it may or may not say.

I want to recognize the hard work, dedication and commitment these leaders in the ministry—and the entire staff at the Ministry of Energy—devote to their work each and every day. Our primary focus at the Ministry of Energy is providing Ontarians with a safe, clean, reliable and affordable supply of electricity. Our system delivers on this commitment through generating stations, transmission networks and local distribution lines that, working together, power millions of energy consumers across the province.

I'd like to acknowledge and recognize the hard work of our agencies and partners that together get this job done: the Ontario Energy Board, the Independent Electricity System Operator, Ontario Power Generation and Hydro One, and of course the utilities and local distribution companies who are the face of energy for the people of Ontario. There are approximately 70 LDCs operating across the province. These agencies develop, transmit and distribute sustainable sources of energy to supply Ontarians' electricity needs when and where they need it.

But before I take your questions, I want to use my opening remarks to provide some context and the framework within which the Ministry of Energy operates to move Ontario forward and modernize our energy system.

I would like to begin by outlining some of our core priorities. To do so, I will highlight the five principles that form the basis of our 2013 long-term energy plan, which is called Achieving Balance, and guide our energy policy decisions each day:

- (1) Putting energy conservation first;
- (2) Ensuring cost effectiveness;
- (3) Maintaining reliability;
- (4) Building a cleaner system; and
- (5) Engaging with our communities.

Putting conservation first is the guiding principle of the 2013 long-term energy plan, which means that as we plan our energy needs for the next 20 years, conservation will be the first resource to be considered. Conservation is the cleanest and most cost-effective energy resource we have. The more we save, the less we need to look for sources of new supply.

Conservation initiatives can also eliminate the need and cost to build or sustain transmission and distribution infrastructure. This will result in significant cost savings.

So our aim is to consider conservation as the first option before building new generation or transmission facilities wherever cost-effective. This means adopting a conservation-first mindset throughout our planning, approval and procurement processes. It means bringing that mindset to work with our energy agencies, local distributors and various ministries, and it means building a culture of conservation in Ontario with current and evolving conservation programs. From 2005 through 2013, Ontarians conserved 8.7 terawatts of electricity. To put that in real terms, that's enough to power the cities of Mississauga and Oshawa combined for a year.

We're working with our agencies to ensure they put conservation first in their planning and approval processes.

We're continuing Ontario's long and successful history of establishing the highest minimum efficiency standards for products, helping residential and business consumers to make the most efficient choices.

We're promoting a utility-led approach to make new financing tools available to consumers, including on-bill financing tools to help with the up front costs of energy efficiency improvements. We're exploring energy and water reporting and benchmarking requirements for large buildings, and we're looking at ways of leveraging the sound investment Ontario has made in smart grid and smart meter technologies and related pricing tools to help consumers manage their bills.

On January 1, 2015, Ontario launched its new Conservation First framework to support province-wide and local electricity conservation programs. This new six-year framework is a long-term commitment that builds on the success of current programs and supports the development of new programs to meet local needs and offer more choice for consumers. In fact, every LDC in the province has signed a contract with the IESO undertaking to meet the objectives and to deliver in their respective territories. Local utilities know their customers

best and are in the best position to deliver conservation programs.

The new framework gives local utilities more control over the conservation programs offered in their service area. All local distribution companies, or LDCs, across Ontario have submitted their 2015-20 conservation and demand management plans to the IESO for review and approval. New conservation programs are expected to begin entering the market in 2016. Some of them have already commenced.

Conservation also has a meaningful impact on the cost of power for businesses across the province. Working with LDCs, agencies and the ministry, businesses can harness new innovations to help reduce their costs. For example, Tim Hortons: 245 Tim Hortons restaurants underwent renovations that included energy-saving measures like switching to LED lighting and installing white roofs. Through combined conservation efforts last year, Tim Hortons estimated it would save around four million kilowatt hours of electricity province-wide.

Home Depot has completed 191 conservation projects province-wide. These have reduced energy consumption by more than 29 million kilowatt hours since 2012, enough electricity to power more than 3,000 typical Ontario homes for a year. Conservation is working, and it's meaningful.

#### 0910

In Ottawa, the home of the Ottawa Senators, the Canadian Tire Centre implemented a new state-of-the-art sport lighting package in their arena. This reduction equates to one million kilowatt hours each year, or the equivalent of 1,745 60-watt light bulbs running 24/7. It saves their electricity bill about 75% on their invoice.

Leveraging more than \$135,000 in financial incentives received through the saveONenergy program, Arbor Memorial was able to green its Toronto-based head office by upgrading its energy-intensive heating, ventilating and air conditioning systems, reducing its overall energy costs by \$100,000 annually.

These impacts are also seen at small businesses across Ontario. For example, a lighting upgrade using financial incentives provided through the saveONenergy program—that's through their LDCs—allowed Lee's Dundas Pharmacy in Toronto to improve the quality of the store lighting while reducing electricity costs by 30%.

These are just some examples of innovative and practical ways that conservation can help drive down costs for consumers large and small while at the same time reducing the cost pressures within the system. These savings in turn offer meaningful opportunities for businesses to invest in their local economy and create jobs.

The next key objective of the ministry is providing affordable energy to Ontarians. In fact, everything we do at the Ministry of Energy is focused on reducing costs for electricity consumers. As we demonstrated in the last long-term energy plan, we have bent the cost curve down and reduced upward pressure on electricity rates.

In the past few years, while we've been investing in a sustainable energy system with infrastructure that will

last for generations to come, we've taken key steps to help mitigate cost increases. Some of the conservation measures that I already mentioned help to mitigate costs very significantly.

By way of example, since 2009, rooftop solar prices have gone down 66%. Non-rooftop solar prices have gone down by as much as 73%, reducing feed-in tariff prices that are expected to save ratepayers \$1.9 billion.

As well, moving procurement of future large renewable energy projects to a competitive procurement model is encouraging development of cost-efficient and locally supported projects. Renegotiating the green energy investment agreement—that's the Samsung agreement—will save \$3.7 billion for ratepayers. The decision to indefinitely defer new-build nuclear saves an additional \$15 billion in potential increases. And removing the debt retirement charge from residential consumer bills at the end of this year will save the average household \$70 each year.

We've also taken key steps to work with other provinces and reduce costs for Ontarians. We negotiated an agreement with Quebec to exchange electricity capacity that will make electricity more affordable and reliable in each province.

The seasonal capacity agreement takes advantage of the fact that electricity demand peaks in the winter in Quebec and in the summer in Ontario. Exchanging capacity allows us to match the generating strengths of the two provinces. In other words, they give us electricity at cost in the summertime; we give it to them in the winter. Incidentally, the province of Quebec cannot supply itself in the winter. It has to import electricity, and Ontario is a big supplier of that electricity to Quebec.

In addition, recently, at a joint cabinet summit in Quebec City, Ontario and Quebec signed an MOU to explore further opportunities to enhance clean electricity trade in order to reduce greenhouse gas emissions and ensure Ontario's system reliability and affordability.

Ontario's focus remains on mitigating costs for Ontario ratepayers. Any deal would only go forward if Quebec can provide electricity at a cheaper rate than it would cost to generate it here in Ontario. We are not going to pay a premium. We're doing it, in effect, to lower our cost base and to get clean energy.

Recognizing that low-income Ontarians pay a disproportionate share of their income towards the cost of electricity, in the 2014 budget we announced the development of the Ontario Electricity Support Program, a new initiative which will provide targeted assistance directly on the bills of eligible low-income electricity consumers. For low- to modest-income families, that would save them an average of \$360 each year off their bills, or \$430 a year when combined with the removal of the debt retirement charge.

We also understand how important it is to help businesses address rising energy costs. We have a range of programs and incentives already in place and that were expanded in the last budget.

The industrial conservation initiative helps many of Ontario's large consumers save 25% on their energy

costs. They do this by reducing the electricity they consume during peak hours. Examples of companies already taking advantage of the ICI program include Vale, a nickel mining company in Sudbury and Port Colborne; ArcelorMittal, a steel producer in Hamilton; and Gerdau Ameristeel, also a steel producer in the GTA.

By participating in the industrial conservation initiative, many of Ontario's businesses have been able to lower their electricity costs by an average of 25%. This program was expanded in last year's budget and now benefits over 300 large businesses.

This is excellent news as it decreases the need for investment in costly new electricity generation by maximizing the value of current assets and, importantly, delivers lower-priced electricity for Ontario businesses and job creators.

For example, Vision Extrusions, an extrusion manufacturing company in York region employing 325 workers, could expect to save approximately \$560,000, or 17%, on its annual electricity cost under the industrial conservation initiative, assuming the company reduces its electricity consumption by 15% during times of highest system demand, which all the participants do.

A second equally important program we have initiated for industrial consumers is the Industrial Electricity Incentive Program, which offers reduced electricity rates for companies starting in Ontario, or expanding operations if they're already in Ontario. There are already concrete examples of companies—there are many examples—taking advantage of the IEI Program across Ontario.

In Pembroke, home of my Conservative critic, the MDF paperboard plant has reopened after being accepted into the IEI Program, creating 140 new jobs for the area. In Whitby, Atlantic Packaging is expanding their paper mill and creating 80 jobs with the help of the IEI Program. In Cochrane, Detour Gold issued a release, in fact, saying that the program saved them \$20 million last year while they expanded what will be one of the largest gold mines in Canada.

A new application window for the IEI Program was opened in 2014 to encourage broader participation. Contracts were awarded earlier this year to companies that included AuRico Gold, FNX Mining Co., New Gold, Resolute FP Canada, Roelands Plant Farms, Rubicon Minerals Corp., White River Forest Products, EACOM Timber Corp. and St. Andrew Goldfields Ltd. These are just some of the ones that have benefited.

By expanding the IEI Program using our surplus power, many new companies can qualify for electricity rates among the lowest in North America, in exchange for creating jobs in Ontario by expanding or starting new businesses.

Another important program designed to help businesses manage their energy consumption and lower their bills is our Demand Response Program, which compensates participating customers for reducing their electricity use during peak demand in response to pricing signals or other criteria. For example, Loblaw's, the poster child for

this one, and other large businesses participate in demand response programs by reducing additional lighting and cycling down air conditioning and refrigeration systems in times of increased provincial demand, thereby reducing their electricity costs while saving costs in the overall electricity system at the same time. They are doing this province-wide, in every single one of their outlets.

To support small businesses, we are implementing a five-point small business energy savings plan announced in April 2014, which includes roving or embedded energy managers who will be available right inside small businesses on a fixed-term basis to provide support and assistance every step of the way to create an energy savings program, from applying for incentives to installing energy-efficiency measures. We give them the management to become efficient.

These programs are helping small businesses manage electricity costs and save money by offering enhanced conservation programs. For example, Giant Tiger, which is a countrywide chain, here in Ontario is already saving \$300,000 per year from their participation in just the pilot project offered by Ottawa Hydro.

#### 0920

While we seek to mitigate pressures by reducing system costs through conservation initiatives and prudent system planning, our government has also implemented a wide range of price mitigation measures for industrial, commercial and residential customers, with the express intention of helping families and businesses manage their bills.

We understand that customers, both residential and commercial, are concerned about rates. There is concern about rates right across North America in every single jurisdiction. Our government is committed to an affordable, clean and reliable electricity system for all consumers. We are determined to find efficiencies that can mitigate electricity costs even further. This is a key priority for our ministry and for this government.

We recognize the key role energy agencies play in keeping the electricity system on a sound financial footing and we can assure you that they, too, are working to keep their operations efficient and cost-effective. I note this will be the first year for the new IESO, which has been merged and has assumed the responsibilities of the former Ontario Power Authority. Our agencies have also identified hundreds of millions of dollars in efficiencies and reduced costs, all to the benefit of rate-payers.

Ontario Power Generation's business transformation initiative has helped to create a more streamlined organization that utilizes resources more efficiently. This initiative has resulted in head-count reductions of about 2,200 positions, and OPG expects to eliminate another 130 positions by the end of 2016, yielding a total estimated \$1 billion in savings.

Our long-term energy plan includes our commitment to clean energy. Renewable energy is playing a key part in our efforts to make the energy system cleaner and

more sustainable. Our target is to have 20,000 megawatts of renewable energy online by 2025. That's wind, solar, hydroelectricity and bioenergy.

Our precedent-setting closure of coal-fired generation in 2014 was made possible in part by the efforts we've taken in renewable energy. That one step, the elimination of coal, has earned Ontario's energy system recognition around the world. In fact, it was the single biggest climate change initiative in North America. It was equivalent to taking seven million cars off Ontario's roads. As a result, we are saving approximately \$4 billion per year in avoided health care and environmental costs.

Certainly, as we get into the carbon dispute worldwide and the reduction of carbon, we're ahead of the game; we're ahead of the wave. We've already done it. I'm sure over the next 15 hours, we'll be able to go into some details on that, at least in the electricity sector.

A major advantage of Ontario's supply mix is the diversity of our generation. The workhorse of our system has been nuclear power, which has been reliable, clean, cost-effective, and a key contributor to Ontario's technology development and job creation. Since the first reactors in Ontario started generating electricity, Ontarians have benefited from emissions-free, safe, reliable and affordable nuclear power.

Today's nuclear power provides 60% of our power, and it will continue to be a mainstay of our system into the foreseeable future under our long-term energy plan. Ontario's nuclear industry generates \$2.5 billion in direct and secondary economic activity in Ontario annually.

Ontario has been operating nuclear power safely and successfully for over 40 years. The Bruce nuclear generating station in Kincardine is the largest single operating nuclear generating facility in the world, and the Bruce and Darlington nuclear stations are recognized by the World Association of Nuclear Operators as top-performing facilities.

However, I know that you are aware that Ontario's nuclear fleet will see 10 units reaching the end of their life cycle over the next 15 years. Their refurbishment will be a major undertaking and also a major economic driver in Ontario. Refurbishment means we get the most value out of our existing infrastructure. The cost, incidentally, of refurbishment is 50% of building new nuclear. Thousands of jobs and opportunities for Ontario workers and businesses will continue to be created.

It should be noted that during refurbishment, both Ontario Power Generation and Bruce Power will be subject to strict oversight to ensure safety and value for ratepayers, including building in appropriate and realistic off-ramps. Negotiations continue with Bruce Power to continue the right refurbishment terms for Ontario.

The Ontario government is taking significant steps to ensure that refurbishment of Darlington is done properly, including a staged approach to refurbishment. The refurbishment schedule is spread out to ensure that subsequent refurbishments will only proceed after the successful completion of the first unit's refurbishment, and an independent oversight adviser provides regular

updates on the progress of the Darlington nuclear refurbishment project to the Ministry of Energy.

We've been very clear that we will not proceed with nuclear refurbishments if there are significant cost or schedule overruns. We have control of that, because the units being refurbished—we're doing them incrementally. So if we run into problems and the system is not working, we will switch. We have plans to switch if it's required, but we are very, very confident that we'll meet our numbers.

A study conducted by Canadian Manufacturers and Exporters has shown that an additional 9,000 jobs are expected to be created as a result of the proposed refurbishment, bringing the total number of people employed in Ontario's nuclear supply chain to approximately 60,000. This is a good thing for Ontario.

I want to emphasize that our greatest challenge, and therefore our greatest imperative, is to see these projects through on time and on budget. Our government is taking the steps to make that happen and to exclude the happening of any of the risks. The story of nuclear power in Ontario is one of constant innovation, and refurbishment will ensure that this track record continues.

Our long-term energy plan includes our commitment to providing a reliable electricity system for Ontarians. One of the ministry's key objectives is to encourage development of a smarter grid. This will bring system-wide benefits such as increased conservation, fewer service disruptions, lower greenhouse gas emissions, less wasted energy, lower operating costs and more job growth.

The smart grid has captured the imagination of Ontario scientists—in fact, scientists across North America and the world, but we are at the forefront here in Ontario—and entrepreneurs and our energy sector, with Ontario supporting 28 Smart Grid Fund projects. We're supporting 28 Smart Grid Fund projects; on the other hand, the private sector and the LDCs are doing many projects on top of that. It's a very, very significant wave that we're coming through in terms of creating one of the smartest grids in the world.

Leveraging private money over 3 to 1, Ontario's funding of the smart grid is leading to new solutions that will increase the grid's reliability, flexibility and responsiveness. The enhancement of Ontario's electricity grid itself is progressing, with more than \$13 billion invested in Hydro One's transmission and distribution systems alone since 2003, perhaps the most notable project being the commissioning of the Bruce to Milton transmission reinforcement project in 2012, a 180-kilometre transmission line enabling 3,000 megawatts of clean renewable and nuclear energy.

This project is a great example of First Nation participation in the energy sector. Developed in partnership with Hydro One, Saugeen Ojibway Nation now holds an equity stake in the project, providing an important economic development opportunity for the member communities.

This is an exciting time for the province, as we move to ensure that the corporation has the structure, leadership

and oversight to continue to deliver clean energy cost-effectively and responsibly to all Ontario consumers.

Other utilities, too, are changing. While our government has been clear that we will not be forcing the consolidation of LDCs, we are creating incentives for voluntary consolidation. Any decisions will be made by LDCs in the best interests of their ratepayers as they consolidate, both in terms of delivering savings on electricity bills and ensuring they continue to receive the reliable service they expect.

Our government is confident that we have the appropriate regulatory and oversight tools in place to ensure that consumers continue to reap the benefits from what is one of the cleanest, most affordable and reliable energy systems in the world.

The fifth and final guiding principle in our long-term energy plan is community engagement. Our government has taken important strides to bring community engagement to the centre of our decision-making framework. Our policy calls upon municipalities and aboriginal communities to develop their own community-level energy plans to better help inform local and regional decision-makers. In fact, we have funding programs for them.

In saying that, we will support these efforts through the Municipal Energy Plan Program and the Aboriginal Community Energy Plan Program.

#### 0930

Furthermore, we are committed to giving municipalities meaningful opportunities to participate when decisions are being made about siting—

**The Chair (Ms. Cheri DiNovo):** Just a note, Minister: You have about three minutes left.

**Hon. Bob Chiarelli:** Okay. Thank you—when decisions are being made about siting renewable energy projects. We are providing for a greater local voice and responsibility. After broad consultation, we have increased local control over renewables siting and brought stability and predictability to procurement.

The IESO is continuing to implement their report and associated 18 recommendations included in the framework Engaging Local Communities in Ontario's Electricity Planning Continuum. For large renewable projects, the IESO has developed a new bidding process in which projects that have the support of local communities will be given priority. We changed the FIT program rules to give priority to projects partnered with or led by municipalities, and to date, many municipalities have approved resolutions to support the development of wind and solar projects.

To start off, Oxford county has passed a unanimous resolution that they are supporting moving forward 100% with renewable energy. The projects also include:

—In St. Clair township near Sarnia, the local council have negotiated a community host agreement that Mayor Steve Arnold has said will have financial benefits for the 20-year length of their contract and beyond;

—In North Bay, council has approved two solar projects, and local business owners have already signed agreements with the project proprietors. Councillor

George Maroosis stated, “We talk about the future for our children and grandchildren and what makes sense with renewable energy sources ... and this is good, clean energy”;

—In Leeds and the Thousand Islands, the township councillors agreed to endorse an application for a solar farm, noting that local companies would be hired to build the solar farm;

—Even MPP Randy Hillier: In his riding, one of his communities just passed a unanimous resolution for a wind farm. Isn’t that amazing? Where was Randy?

—In Ramara, near Orillia, a petition with more than 90 names supporting the development of a 60-megawatt solar project was presented to council. The municipality will be paid a dividend of \$1,500 per megawatt, about \$85,000 annually. That can be used for environmental or recreational initiatives.

There are a number of other examples here. I will not have time to finish all my notes with the time available, but we look forward to the questions and we’ll have an opportunity to include these additional matters down the road.

I’ll wind up right there. Thank you.

**The Chair (Ms. Cheri DiNovo):** Thank you, Minister. Now to the official opposition: Mr. Smith.

**Mr. Todd Smith:** Thank you, Minister, for the reminder about the long-term energy plan. We’ll be discussing at length a lot of the issues that you brought up, including the siting issues with renewable energy facilities and why different municipalities are now welcoming these renewable energy projects to their communities.

What we’ve been experiencing over the last little while in rural Ontario is unwilling host communities that don’t want to have any part of these renewable energy projects, but suddenly, these companies are offering huge financial incentives to municipal councils that are seeing negative growth in their communities, and therefore a depleted rate base. They need the money and they’re being bribed by companies to locate in their communities, so they’re being put in a very difficult position.

But let’s start with something that you didn’t talk about in your half-hour presentation, and that is the highly unpopular sale of Hydro One. You have no mandate to sell Hydro One—that’s clear—yet you’re going ahead with it anyway, in spite of the fact that most people in the province of Ontario are against the sale of Hydro One.

We had the prospectus that was released a couple of weeks ago. Maybe we’ll dive right into some of the issues that are in the prospectus, but I wasn’t surprised—when you started off, you talked about conservation, which is important to you; I understand that conservation is important. You talked about refurbishing new nuclear, which I know is important to you. It’s something that you’ve talked about in the past. But nowhere in your presentation did you even mention the sell-off of Hydro One, so I’m curious as to whether or not you’re supportive of the Hydro One sale, first of all, considering the fact that there is no mandate for your government to

sell off Hydro One. Would you agree that there’s no mandate to sell Hydro One?

**Hon. Bob Chiarelli:** I will answer that question in a moment. I just want to ask Sharon Geraghty, who is our special counsel, to do a brief overview of the Ontario Securities Commission requirements—

**Mr. Todd Smith:** Why don’t we get to Sharon—we’ll get to Sharon eventually, but I just want to ask you some questions, Minister.

*Interjection.*

**Mr. Todd Smith:** We’ll get a chance to talk to Sharon. We have 15 hours to spend together here. I was just wondering if you would answer that question, considering the fact that Ontario has not supported the sale of Hydro One—the people of Ontario. And keep in mind that Hydro One has belonged to the people for decades. There was no mandate, there was nothing in your election platform that indicated that you were going to be selling off Hydro One. I’m just wondering, Minister, are you supportive of selling off Hydro One?

**Hon. Bob Chiarelli:** Ms. Geraghty is here as part of our staff complement, so I’ll ask her to start answering that question.

**Mr. Todd Smith:** Sharon, with all due respect, I would rather have the minister—

**Mr. Bas Balkissoon:** Madam Chair.

**The Chair (Ms. Cheri DiNovo):** Mr. Balkissoon.

**Mr. Bas Balkissoon:** On a point of order, if I could: The minister has offered the committee to hear from the legal staff on this particular issue before he answers and I think it’s appropriate we allow the minister to have his legal counsel advise the committee what we can ask and what we cannot ask before we proceed with this type of questioning.

**The Chair (Ms. Cheri DiNovo):** The minister has up to 30 minutes to reply, so you can ask your question again, Mr. Smith.

**Mr. Todd Smith:** And keep in mind that we do have 30 minutes here, Minister. I appreciate the fact that you had 30 minutes to talk about your priorities, but I want to ask a question to you, Minister. My question to you is: Do you not think, given the returns and the money that we’ve seen flowing into the province from Hydro One over the last many, many decades, a steady revenue stream in Ontario, that the people of Ontario need to keep Hydro One in their control? Do you think they should be selling off Hydro One?

**Hon. Bob Chiarelli:** I will address the issue of whether or not we had a mandate. I remember very well how time was proceeding prior to the last election campaign. A couple of very significant things happened: Number one, we did have a budget presented prior to the election, which we were unable to proceed with. But prior to the calling of the election, there was an assets council appointed. Mr. Clark was chair of that assets council and his mandate was very, very clear: It was to explore monetizing a range of specific assets. This was before the election campaign. That included specifically energy agencies; it included the Beer Store; it included



real estate assets; it included the LCBO. It was very, very clear.

Prior to the calling of the election, these issues were discussed in question period, they were discussed in the House, and we clearly stated that we were looking at all of our key entrepreneurial or enterprise assets, to look to see if we could monetize those. The energy sector was specifically mentioned prior to the election campaign.

In the budget itself we saw specific statements that referred to changing ownership—potentially changing ownership—of Hydro One, Ontario Power Generation, real estate assets, LCBO and the Beer Store. It was extremely, extremely public that this is a direction we intended to move in and this was an overriding policy.

Now, I'm going to pass it over to the deputy—

**Mr. Todd Smith:** I would say, Minister, that I'd rather talk to you. I mean, that's what we're having here: a conversation with the Minister of Energy.

**Hon. Bob Chiarelli:** I'm going to ask the deputy—

**The Chair (Ms. Cheri DiNovo):** Excuse me, one at a time, please.

**Hon. Bob Chiarelli:** The deputy is going to respond as well. Please, Deputy.

**Mr. Todd Smith:** With all due respect, Mr. Deputy, we have 15 hours to together, but I just want to ask the minister about this. Because I know the minister has—

**Mr. Grant Crack:** Point of order.

**The Chair (Ms. Cheri DiNovo):** Point of order, Mr. Crack.

**Mr. Grant Crack:** Thank you, Madam Chair. I believe the minister has the opportunity to pass questions on to support individuals who are here, and I would ask that maybe the Chair could rule that the official opposition not continue to interrupt, and harass, perhaps, the minister when he's trying to—

**The Chair (Ms. Cheri DiNovo):** Thank you, Mr. Crack. This is the official opposition's time. Mr. Smith.

**Mr. Todd Smith:** Thank you. This is clearly the politician I'm talking to in the room right now, because this clearly is a decision that was made by the cabinet—

**Hon. Bob Chiarelli:** Chair, excuse me, I didn't understand. Are you ruling that the deputy cannot speak now?

0940

**The Chair (Ms. Cheri DiNovo):** No. I cannot compel you to speak and I cannot not compel you to turn it over to your deputy. I advise Mr. Smith to ask his questions accordingly.

**Hon. Bob Chiarelli:** The question has already been asked. I've partially answered it and I'm referring it to the deputy to further expound on it.

**Mr. Michael Harris:** We get to ask the questions.

**Mr. Bas Balkissoon:** Madam Chair, point of order.

**The Chair (Ms. Cheri DiNovo):** Mr. Balkissoon—  
*Interjections.*

**The Chair (Ms. Cheri DiNovo):** Hold on. We are—  
Mr. Smith, yes, the floor is yours.

**Mr. Todd Smith:** Do you believe that you have a mandate to sell Hydro One?

**Hon. Bob Chiarelli:** Yes.

**Mr. Todd Smith:** Do you believe that the people of Ontario have said that they want you to sell Hydro One?

**Hon. Bob Chiarelli:** There is discussion and debate around what we're doing, but we stated clearly beforehand the direction we were moving in, that we intended to move in, with respect to repurposing assets in order to fund new infrastructure without borrowing, without taxing and without cutting programs, and that's the direction we moved in.

**Mr. Todd Smith:** The people of Ontario simply don't agree with you, and I think you've seen that from the various public opinion polls that have come out.

But let's move on. You and the Premier have time and time again stated that your government is going to have control of the board of Hydro One, despite the fact that you're selling off 60% of Hydro One. However, in the prospectus—and we've read the prospectus, we all have in this room, I'm sure. It specifically says, "With respect to its ownership interest in Hydro One Ltd., the province will engage in the business and affairs of Hydro One Ltd. as an investor and not a manager...."

So an investor, not a manager. How can you retain de facto ownership when you're not allowed to act as an owner?

**Hon. Bob Chiarelli:** First of all, the Ontario Securities Commission does not permit us, as a shareholder, or Hydro One to make statements publicly in any way, shape or form that would be seen to be enhancing the value or control-related issues. I will be very, very cautious in terms of how I respond to you and I will say that if you look and analyze the prospectus carefully and if you do even the slightest bit of research in corporate law and in securities practices, they will indicate to you what de facto control is. We were very, very careful to make sure that we retained the public policy-making issues, protecting the consumer-related issues by legislation that we passed, by governance agreements that we have etc. I'm going to leave it at that.

**Mr. Todd Smith:** So the Premier—

**Mr. Bas Balkissoon:** Madam Chair, on a point of order—

**The Chair (Ms. Cheri DiNovo):** Just a second. Mr. Balkissoon?

**Mr. Bas Balkissoon:** I asked you for a point order and you moved on without recognizing my point of order.

**Mr. Michael Harris:** That's not a point of order.

**The Chair (Ms. Cheri DiNovo):** Hold on. Point of order, Mr. Balkissoon.

**Mr. Bas Balkissoon:** I beg my colleague on the other side, I wasn't addressing you. I'm addressing the Chair, which is standard procedure at this committee.

**The Chair (Ms. Cheri DiNovo):** Okay, please continue.

**Mr. Bas Balkissoon:** Madam Chair, I've been on this committee for quite a while and the opposition has its opportunity to ask questions—

**The Chair (Ms. Cheri DiNovo):** We're stopping the clock.

**Mr. Bas Balkissoon:**—similar to my colleagues. The minister has the opportunity to answer and pass the question to his senior staff. That has been standard practice.

You also read a preamble at the beginning of this meeting and I would ask you to refer back to it and follow what is traditional procedure here. The minister has offered more than once to hear from legal counsel so that the committee could be guided in its questions, and you're actually denying it.

**The Chair (Ms. Cheri DiNovo):** I'm not denying it. As I said, it's up to the minister and he has the power to—

**Hon. Bob Chiarelli:** I'm choosing not to say anymore to answer his question. I'm passing it to my deputy.

**The Chair (Ms. Cheri DiNovo):** Okay, to the deputy, please.

**Mr. Serge Imbrogno:** Just on your point, in terms of what powers the government maintains, I think one of the major powers the government maintains is the ability to call a vote to remove the entire board. I think that's a very strong power that the government maintains. Maybe you want Sharon to expand on that, but I think that's an important power that the government maintains as it moves forward with broadening the ownership.

**Mr. Todd Smith:** Let me just expand on that question, if you don't mind, before we go to Sharon. Do you think that firing the entire board at once would be good for share prices of the company?

**Mr. Serge Imbrogno:** I think it's an extraordinary tool that the government maintains and I think what it does is it ensures that Hydro One considers the interests of all its shareholders, including the province and anyone else who purchases a share. It's a power that the government has. I'm sure it won't use it—only in extreme measures—but it does maintain the authority to do that.

**Mr. Todd Smith:** And it's just individual board members and not the president and CEO, correct?

**Ms. Sharon Geraghty:** Maybe I'll start by just introducing myself again. My name is Sharon Geraghty. As you know, I'm special counsel for the government. I do want to explain why and how we're answering questions and the strict securities law rules that we are facing in this public forum. I think it's very important for all of us to understand it, so that you can understand the way in which we have to answer your questions.

The rules that are in place—we're in a quiet period now. That's a term that the securities regulators across the country use, and it will govern both Hydro One and the province, the government, until the last share is sold in the IPO.

Those rules are designed to protect the public interest in two ways: They're designed to ensure that investors base their investment decisions not on what the government is saying publicly but on the prospectus; and they're also designed to ensure that the government does not unfairly promote investment in the company. Investment decisions are between investors and their registered financial advisers.

So there's two elements to this. We have to be very careful in dealing with the prospectus to stay within the four corners of the prospectus. That's a document that is very thorough. It is governed by securities laws as to what is required to be included in it. It contains a very thorough description of the business and it is not the government's place or ability to expand upon or deviate from that prospectus document. We will, in many cases, be referring you to the prospectus. That's a very important legal principle.

The other thing that we have to be very careful to do is not to make statements. This is a public forum. Media might report on it. It is incredibly important to securities regulators that nothing said in this room, even unintentionally, be used to promote investment in the securities. This is a very, very important principle and it's designed to protect the public interest.

On the question you raised about control, the control of a public company like this one will become, like any public company that is listed on the TSX but also like the company right now, it's governed by its board of directors. So the government has—and you'll see very thorough descriptions of the governance agreement in the prospectus. There are a number of provisions in there which are unique and unusual, and give very important rights to the government as a responsible shareholder of the company. It is the role of a responsible shareholder—any controlling shareholder of a public company does not manage the company. It is the board of directors that does that, and the way in which controlling shareholders exercise their investment rights is through the board.

In this particular case, the government has negotiated an arrangement where they will nominate directors to the board. They'll have the ability to view the nominees that are made by the nomination committee. All of the nominees have to meet very high qualification standards and independence standards, and then as the deputy mentioned, there are unique and special rights to cause a meeting to be held to remove the board. The only member of the board that cannot be removed is the CEO, unless the board as a whole removes the CEO, and then that CEO is also removed from the board.

**Mr. Todd Smith:** Okay. So let's go back to something we have talked about, and that is the CEO and president. We talked about Mr. Schmidt being hired by the Premier with a total compensation package of \$4 million. I think that is completely distasteful to the people of Ontario—and keep in mind we're here to represent the public's interest as well as members of the official opposition and third party in the fire sale of Hydro One.

It's unfathomable to the people of Ontario when they see a new CEO and president being hired at Hydro One with total compensation of \$4 million, Minister, when a lot of families out there are struggling to pay their electricity bill every month. How can you justify paying a total compensation of \$4 million while keeping the former president on as an executive as well?

**Ms. Sharon Geraghty:** I just want to caution the minister again. When we're talking about the business of

Hydro One, and these questions relate to the business of Hydro One, these are decisions that are made by Hydro One and the compensation philosophy of the company is thoroughly described in the prospectus. So I just want to make sure—obviously let you go ahead—but I just want to make sure you keep that in mind.

0950

**Hon. Bob Chiarelli:** I was just about to say that that decision was made by the board. At the time the prospectus was made public, and we had an availability, there was a lot of discussion around management compensation and where the board basically positioned the new CEO in terms of compensation. It was very, very clear that it was not at the top range. People have looked at different comparables. I think the average for that type of company in North America is something like \$7 million.

I want to state as well that my understanding of the contract and the prospectus is that the base salary is \$850,000; that it would be very difficult to achieve the higher amount of \$4 million; that perhaps it might happen in one out of five years; and that it's based on results, the dividend policy, the dividends that they're returning to the shareholder, the largest one of whom would be the province.

A large item on the targets for the CEO is the safety record of the company. The third pillar is consumer service, that consumer service is very, very high.

We also understand that the new ombudsman who is going to be appointed reports directly to the board, and that the governance agreement provides any consumer to appeal even the ombudsman's decision to the Ontario Energy Board, which is a very independent and neutral arbiter in those types of things.

**Mr. Todd Smith:** So you're fine with the compensation package that the board has approved for the new CEO and president at Hydro One?

**Hon. Bob Chiarelli:** The decision is explained in the prospectus. The positioning of that type of management salary is very well known. I'm prepared to live with the decision of the board.

**Mr. Todd Smith:** There's the one area where the province can arbitrarily maintain control, and that is the firing of the board, as we mentioned earlier, except for the president and the CEO.

Again, I just want to go back to my earlier question, that I don't believe was answered, and that is, the only area that you really have control over is firing the board, but do you think that actually values the shares of Hydro One?

**Hon. Bob Chiarelli:** Before the prospectus was filed, there was a lot of consideration given to public policy issues, and protection of the public-related issues, and the Electricity Act and the Ontario Energy Board Act were amended.

Let's be very, very clear here: Public policy relating to planning in a system—where transmission is going to go; the type of procurement for renewables etc.—that's still completely within the jurisdiction, responsibility and the control of the provincial government.

**Mr. Todd Smith:** And that's frightening to a lot of people, quite honestly. That is quite frightening to a lot of people. Let me ask you this—

**Hon. Bob Chiarelli:** Sorry. You don't think it should be with the province?

**Mr. Todd Smith:** Listen, I know that there are double standards that exist within your government, and we've talked about them at length, and we'll get to them over the next 15 hours. It depends on where the municipality is—

**Hon. Bob Chiarelli:** So you don't—

**Mr. Todd Smith:** It depends on where the municipality is, Minister, and I think we've seen this in the past with the gas plant scandal—

**Hon. Bob Chiarelli:** I think it's utterly amazing—

**Mr. Todd Smith:** —and we've seen it as well with different green energy projects—

**The Chair (Ms. Cheri DiNovo):** One at a time, please. One at a time.

**Hon. Bob Chiarelli:** I think it's utterly amazing that you suggest that the IESO should not have, as an agency of the province, the right to do consultation on planning, and consulting with different regions in terms of what their needs are etc., which is the way it's done now. This is—

**Mr. Todd Smith:** No, the way it's done now, sir, is that, depending on the political flavour of the day or what the polls are showing, huge gas plants are being cancelled at a cost of over a billion dollars to the taxpayers of Ontario.

**Hon. Bob Chiarelli:** What has that got to do with—

**Mr. Todd Smith:** That's the kind of management of our electricity system that we've seen over the last several years. It's politics and not good policy that we've seen from your government.

**Hon. Bob Chiarelli:** Chair, I don't know what the question is I'm supposed to answer here.

**Mr. Michael Harris:** We're getting to it.

**The Chair (Ms. Cheri DiNovo):** Mr. Smith, the question.

**Mr. Todd Smith:** We're getting to the question.

Let's go back to the board. If the board is removed, according to the prospectus, the government has no say in who is replaced. The only position on the board that the government would have control over appointing is the president and the CEO, who is already appointed, correct?

**Hon. Bob Chiarelli:** The province has the right to appoint 40% of the directors.

**Mr. Todd Smith:** The province only has a 40% stake. The other shareholders are going to have 60%.

**Hon. Bob Chiarelli:** Collectively—

**Mr. Todd Smith:** Collectively, that's right.

**Hon. Bob Chiarelli:** —subject to the governance agreement and subject to legislation.

**Mr. Todd Smith:** Last time I checked, control was 50% plus 1%. You're going to have 40%; the government, the people of Ontario are going to have a 40% stake. That means—

**Hon. Bob Chiarelli:** I suggest that you do a little a bit of corporate research in terms of what de facto control is and satisfy yourself on that point. I'm suggesting you're wrong.

**Mr. Todd Smith:** Okay. Let's move on. How much time do I have?

**The Chair (Ms. Cheri DiNovo):** You have about seven and a half minutes.

**Mr. Todd Smith:** Okay. Let's go back to the mandate that you believe you have to sell off Hydro One.

Clearly, the people of Ontario disagree with the fact that you say you have a mandate to sell off Hydro One. It wasn't a ballot issue in the election of last year, but you're saying, and you have already said to the committee, that you have a mandate to sell off one of our most important public assets in Hydro One. The vast majority of people out there will disagree with you on that, yet you're going ahead with the sale anyway.

Much of what's gone on, Minister, has occurred behind closed doors. It hasn't even been carried out by elected members; it has been orchestrated by Ed Clark and his review. As a member of the cabinet, do you not feel that you should have more input as to what is happening in the province of Ontario than the Premier's hand-picked adviser, Ed Clark?

**Hon. Bob Chiarelli:** As a member of cabinet, I think that we have proceeded extremely well. There is sort of a layering of issues and considerations. One of the first considerations was well before the last election, including the mandate that was given to Ed Clark before the last election, and that was to see whether or not we could repurpose some of our assets to invest in infrastructure.

The public in Ontario—in fact, across Canada, there's a huge infrastructure deficit. Premier Wynne is determined to deal with that particular issue.

*Interjection.*

**Hon. Bob Chiarelli:** Sorry about that; I'll speak into the mike.

The repurposing of the assets: If you look at, fundamentally, what it is, it's taking an asset, which is part ownership of Hydro One, and it's converting that into cash, part of which is paying down debt and part of which is going to invest in infrastructure, part of a \$130-billion infrastructure investment over 10 years so that once and for all, we can catch up and deal with the infrastructure deficit—

**Mr. Todd Smith:** And how much is actually going to go towards infrastructure from this sale?

**Hon. Bob Chiarelli:** —the point being that that portion of it that is coming from broadening the ownership is not coming from tax revenue, it's not coming from debt and it's not coming from services. It's very, very fiscally responsible management. You're converting an asset, which was part of Hydro One—the cash value of that, and that's being converted into other assets, which are represented in rail projects, roads etc.

We believe that it's responsible to deal with the infrastructure deficit. We believe it's responsible to do it in the way we're doing it, by having a partial ownership

disposal in Hydro One, and that's why we're doing what we're doing. We believe it's responsible.

**1000**

**Mr. Todd Smith:** Well, most of the public believes it's irresponsible for you to do it and you're the first government that has ever had to sell Hydro One to pay for infrastructure. Other governments have built subways and they've built hospitals and they've built schools without selling off Hydro One.

Would you not consider that with the revenue you're generating year after year from Hydro One perhaps it would be in the public's best interest to keep Hydro One in control of the province as a public asset? Do you not think that it would make more sense, as that money is coming in, to direct that revenue to a transit stream or a pool for transit projects?

Now, I know that this has happened before with your government, where you have brought in taxes and that money was supposed to go to a certain area, let's say the health premium.

**The Chair (Ms. Cheri DiNovo):** Mr. Smith, you have about two and a half minutes.

**Mr. Todd Smith:** The health premium was supposed to go to help preserve our health care system, but clearly that hasn't happened; that's gone into general revenues and has been wasted on things like gas plants.

Do you not believe that it would be in the public's best interest to take the revenue from Hydro One and use that money year after year for needed infrastructure to help erase that deficit?

**Hon. Bob Chiarelli:** That revenue is there for decade after decade and notwithstanding that, we still ended up with a very significant infrastructure deficit, as every part of the country is in. I know that well, as former regional chair and mayor working with mayors across the city. The infrastructure deficit is over \$100 billion across the province.

**Mr. Todd Smith:** So you're getting \$4 billion from the sale of Hydro One.

**Hon. Bob Chiarelli:** Speaking of investing in infrastructure, the average investment in infrastructure under the previous Conservative government was \$2 billion a year. The average investment in infrastructure under the Liberal government is somewhere around \$11.5 billion to \$12 billion a year, and there is still an infrastructure deficit.

We have been dealing with it and we still haven't been able to catch up the greasy pole. We are determined, over the next 10 years, that we are going to make it happen and we're taking the tough decisions to make it happen.

**Mr. Todd Smith:** The best-case scenario, Minister: You're getting \$4 billion from the sale of Hydro One. The infrastructure deficit across Ontario is over \$100 billion you just said. Once that asset is sold, it's gone. What are you going to sell next? What are you going to sell next to help fill in that infrastructure gap that exists? Where does it end?

**Hon. Bob Chiarelli:** The reality is that \$4 billion is a lot of infrastructure, and as I've said, it's not coming

from tax revenue, it's not coming from cutting services, it's not coming from debt—

**Mr. Todd Smith:** It's coming from selling the golden goose, is where it's coming from. You are selling the golden goose.

**Hon. Bob Chiarelli:** The reality is, there are going to be a number of solutions that will be put in place for infrastructure funding. We have always said that the proceeds from Hydro One are part of a solution. They go into a Trillium fund for infrastructure and it will be spent on infrastructure. There is other funding that is being realized from other assets as well. Selling assets is not the only solution. Part of the solution is running good government.

**Mr. Todd Smith:** Well, that would be nice. It's been a long time since we've had good government in this province—12 years, as a matter of fact, since we've had good government.

I'll end on that note. Thank you, Minister.

**The Chair (Ms. Cheri DiNovo):** Thank you, Mr. Smith. We now go to the—

**Mr. Chris Ballard:** We've got a comedy routine

**The Chair (Ms. Cheri DiNovo):** Quiet, please. We now go to the third party.

**Mr. Peter Tabuns:** Thank you, Chair. Good morning, Minister, Ms. Geraghty, Mr. Imbrogno.

I want to start off with the supplementary estimates that came out last week. There is an expenditure of \$2.663 billion for assets management and transformation. It shows a cost of \$2.6 billion for tax adjustment offset. What is this meant to pay for?

**Hon. Bob Chiarelli:** It's part of the transitioning, the transactions that have to take place in creating a new Hydro One as a public company. We do have the numbers and the deputy will explain what those are.

**Mr. Serge Imbrogno:** Mr. Tabuns, the \$2.6 billion represents the capital contribution that the province is making to Hydro One. It's related to the departure tax that Hydro One pays.

**Mr. Peter Tabuns:** I want to just get into that a bit further. This is a \$2.6-billion contribution from the province to Hydro One?

**Mr. Serge Imbrogno:** That is correct.

**Mr. Peter Tabuns:** So it's coming out of our treasury?

**Mr. Serge Imbrogno:** Well, it's fiscally neutral because when Hydro One leaves the PILs regime under the Income Tax Act, it makes a departure tax payment, like any other corporation would. That's a \$2.6-billion payment to the province. To keep Hydro One whole, there is a \$2.6-billion payment back to Hydro One to maintain its capital so it can optimize its valuation going forward.

**Mr. Peter Tabuns:** Just a second. You're telling me the \$2.6 billion comes from our treasury, goes into Hydro One, Hydro One writes a cheque back to the government of Ontario for taxes—

**Hon. Bob Chiarelli:** The other way around.

**Mr. Peter Tabuns:** Pardon?

**Hon. Bob Chiarelli:** Hydro One, as an LDC, is required to pay the tax. We're paying a tax to ourselves. Our entity is paying \$2.6 billion to ourselves, the treasury. It's going from one bank account that we have to another one, and we're putting it back in. So it's revenue-neutral.

**Mr. Peter Tabuns:** Let's just get the names of those accounts. The \$2.6 billion is coming from the treasury—

**Hon. Bob Chiarelli:** No.

**Mr. Serge Imbrogno:** The \$2.6 billion is paid from Hydro One into the Ontario Electricity Financial Corp.—

**Mr. Peter Tabuns:** Ah, it goes to the OEFC. Okay.

**Mr. Serge Imbrogno:** That's correct. We consolidate the OEFC so that \$2.6 billion then comes back onto the province's book. So that's fiscally neutral. Then there's another transaction where the province then makes a payment, a capital contribution, into Hydro One. We have assets in Hydro One as a set-off to that. So both those transactions are fiscally neutral to the province, and we're doing that to maintain a capital structure that, I guess, optimizes our proceeds going forward.

**Mr. Peter Tabuns:** So the \$2.6 billion is going to reduce the debts that OEFC is liable for?

**Mr. Serge Imbrogno:** That's correct.

**Mr. Peter Tabuns:** So is this part of the \$5-billion debt reduction that's supposed to come out of this deal?

**Mr. Serge Imbrogno:** No. This is different. This is like any corporation that leaves the tax regime—that goes from the payments-in-lieu regime to income taxable under the federal Income Tax Act. There's a departure tax that's paid. Any PIL payment goes to the OEFC—

**Mr. Peter Tabuns:** And why is it that Hydro One is not paying this out of the revenues it receives from the sale?

**Mr. Serge Imbrogno:** The tax is due before you actually go into the IPO. It's the second before, technically.

**Mr. Peter Tabuns:** So where is the government of Ontario getting the \$2.6 billion that's used to pay OEFC ultimately?

**Hon. Bob Chiarelli:** From Hydro One.

**Mr. Serge Imbrogno:** Hydro One is making that payment into the Ontario Electricity Financial Corp.

**Mr. Peter Tabuns:** The government of Ontario gives money to Hydro One; Hydro One gives the money to OEFC.

**Mr. Serge Imbrogno:** No; sorry. Let's just start from the first part of it: Hydro One is required to pay the departure tax. So Hydro One pays the \$2.6 billion into the Ontario Electricity Financial Corp.

**Mr. Peter Tabuns:** Fair enough. So the new investors start off with \$2.6 billion they've paid out.

**Mr. Serge Imbrogno:** Right. And those—

**Mr. Peter Tabuns:** So why are we giving them \$2.6 billion?

**Mr. Serge Imbrogno:** Let me just finish that. That payment—the tax and the payment—is neutral because we consolidate Hydro One. So they're down \$2.6 billion,

but we consolidate OEFC so it's up \$2.6 billion, so those two are fiscally neutral.

**Mr. Peter Tabuns:** I think I may come back to you on this question again.

There's a \$63-million cost that's in here for services. What's that \$63 million for services?

**Mr. Serge Imbrogno:** It would include the total fees that we estimate for the syndicate for selling the shares of Hydro One. It would include the ministry legal support services from outside advisers. It would include other costs related to some financial firms that support the ministry in the transaction. They're all one-time costs related to supporting the IPO.

**Mr. Peter Tabuns:** We've put out \$63 million, and it comes through your accounts, Minister. Does Hydro One reimburse the province of Ontario for the \$63 million?

**Hon. Bob Chiarelli:** It comes out of the proceeds of the IPO. In other words, it comes out of the proceeds of selling the shares.

**Mr. Peter Tabuns:** So it reduces the \$9 billion we're targeting by \$63 million?

**Hon. Bob Chiarelli:** The \$63 million in services for the IPO listed in the supplementary estimates will be fully recovered through the proceeds from the IPO. The bulk of this cost is \$50 million for underwriting and book runner fees. Just a week or two ago, the Globe and Mail noted that our government has persuaded Bay Street to accept some of the lowest IPO underwriting fees imaginable. I think you're aware of those comments. The remainder was spent on corporate legal advisory services, negotiated agreements and advisory services for future offerings. We're doing it in tranches, presumably one quarter, one quarter, one quarter, one quarter, and these costs, again, will be fully recovered from the proceeds of the IPO.

1010

**Mr. Peter Tabuns:** So if it's \$63 million—

**Hon. Bob Chiarelli:** You could not do an IPO without incurring these costs.

**Mr. Peter Tabuns:** I understand that. So, four tranches, four times \$63 million—over \$240 million—

**Hon. Bob Chiarelli:** No, the other tranches are included in the \$63 million.

**Mr. Peter Tabuns:** So \$63 million is the cost for the whole \$9 billion sale. Is that correct?

**Hon. Bob Chiarelli:** Whatever the number happens to be.

**Mr. Peter Tabuns:** The targets we've heard all along are \$4 billion for infrastructure, \$5 billion for debt reduction. Is there another number that I should be aware of? Is that a guess, or is that what we expect to—

**Hon. Bob Chiarelli:** Those are the best estimates that went into the prospectus.

**Mr. Peter Tabuns:** So they could be very different.

**Hon. Bob Chiarelli:** It's a market. They could be much higher—

**Mr. Peter Tabuns:** Or they could be much lower.

**Hon. Bob Chiarelli:** —and so in the wisdom of the people who were doing the financial investment manage-

ment, they are taking a very conservative outlook of how to proceed.

**Mr. Peter Tabuns:** So \$63 million—that reduces the amount of money that comes back to the province to reduce debt and pay for infrastructure. Is that correct?

**Hon. Bob Chiarelli:** It comes out of the proceeds—

**Mr. Peter Tabuns:** Mr. Imbrogno is nodding, but—

**Mr. Serge Imbrogno:** Yes, it would be from the proceeds, so it would reduce proceeds.

**Mr. Peter Tabuns:** Right. So \$9 billion less \$63 million.

**Mr. Serge Imbrogno:** I'm hesitating on the \$9 billion.

**Mr. Peter Tabuns:** You've got to pay lawyers somehow.

**Mr. Serge Imbrogno:** Whatever the number is, when we actually do the final sale.

**Mr. Peter Tabuns:** I'm sorry, repeat that?

**Mr. Serge Imbrogno:** I'm not speculating on the \$9 billion. I'm just saying when we go to market, there will be a price, and the proceeds will be from that.

**Mr. Peter Tabuns:** Okay. Just one second. In your estimates strategy section, you talk about upgrading the transmission system. Can you tell us what major upgrades Hydro One expects to put in place?

**The Chair (Ms. Cheri DiNovo):** This is a three-minute warning.

**Hon. Bob Chiarelli:** Okay. Sorry, where are you looking in the estimates?

**Mr. Peter Tabuns:** Look at page 7: Strategies: Continue to transition to a modern and reliable energy system by upgrading our transmission and distribution systems.

Can you tell me where you're planning to invest in the transmission system?

**Hon. Bob Chiarelli:** There are a whole range of transmission issues that are part of the long-term energy plan. But let me make it very, very clear: When we amended the Electricity Act, we and the OEB, we gave ultimate decision-making authority with respect to new transmission and transmission changes to cabinet. Hydro One has nothing to do with that particular issue.

That includes, for example, the northwest transmission Pickle Lake line, for which, about three or four weeks ago, we announced a wonderful public-private partnership between 20 First Nations communities and two private sector companies. We, through the IESO and through our regulatory process, are authorizing that to go ahead. It's specifically mentioned in the long-term energy plan, and we're implementing that. That brings the grid to remote communities.

**Mr. Peter Tabuns:** Can I go back to an earlier part of your statement? Have you—

**The Chair (Ms. Cheri DiNovo):** We have only a few seconds left. Perhaps we can wrap it up there, and I'll do this—

**Mr. Peter Tabuns:** It was a great question, Chair.

**The Chair (Ms. Cheri DiNovo):** —and we will reconvene this afternoon after routine proceedings. Thank you, everyone.

*The committee recessed from 1014 to 1545.*

**The Chair (Ms. Cheri DiNovo):** Okay, let's get going. We're here to resume the consideration of the estimates of the Ministry of Energy. There are a total of 13 hours and 49 minutes remaining. When the committee was adjourned, the third party, the NDP, had 19 minutes remaining in their rotation.

Just a couple of notes; I want to clarify something. It's absolutely within the jurisdiction and the domain of the minister to allow deputies to respond to questions. I want to make that clear. Also, I want to make it clear that everybody can raise a concern or a question of order, but if that concern or question of order goes on and on and on, we're going to stop the clock—just so we know.

Mr. Tabuns, you may proceed.

**Mr. Peter Tabuns:** Thank you very much, Chair. Minister, welcome back.

Your Strengthening Consumer Protection and Electricity System Oversight Act will give the government power to push through transmission lines without having an OEB hearing. Are there any major projects you are considering now that you don't want to have to go through an OEB hearing?

**Hon. Bob Chiarelli:** Deputy?

**Mr. Serge Imbrogno:** Just to clarify, Mr. Tabuns, I think any transmission project that goes forward will still go through an OEB prudence review. What we're talking about is whether, for certain projects, we would want to not have a needs test done by the OEB to start the process. So, for example, if in the long-term energy plan the government has identified a particular transmission project as priority that it believes it would like to go forward, it could move that forward, but it's still subject to a final prudence review, costing—everything would go through an OEB process.

**Mr. Peter Tabuns:** Would the OEB be able to turn it down?

**Mr. Serge Imbrogno:** The OEB would be able to push back on whatever cost estimates are put forward. It would be able to scope it in whatever it thinks is appropriate, but it would be identified as a priority project by the government—assuming that the bill passes.

**Mr. Peter Tabuns:** Just going back, they could have a hearing, but they couldn't say, "This is not justified. You can't proceed"? They couldn't turn it down as they would, in a rate hearing, turn down a rate application?

**Mr. Serge Imbrogno:** They would go to the OEB in terms of getting all the cost recovery, getting the scope of the line, where the line would go—all that would be under the OEB review. But moving forward, the government could identify that as a priority line. So you would skip the one step of the OEB having to identify need, because the government has already done that for a priority project.

We would do that through something like a long-term energy plan, where you identify a certain project as priority.

**Mr. Peter Tabuns:** So if the OEB on examination found that the project was completely deficient, they still

wouldn't be able to say to Hydro One, assuming the government was proposing this transmission line, "You can't proceed with this"?

**Mr. Serge Imbrogno:** I think once it's identified as a priority project by the government, it would then be, "Is it scoped correctly? Are you recovering your costs?" and so on. It wouldn't be up to the OEB to say no to a particular line once it's identified as priority.

**Mr. Peter Tabuns:** And it wouldn't be able to say no to a rate increase that was related to recovery of costs for that line?

**Mr. Serge Imbrogno:** It would still be up to the OEB to make sure that all the costs that are put forward are prudent, so it would still have all the scoping authority.

**Mr. Peter Tabuns:** Would it be able to say to Hydro One, "You can't recover costs for this line"?

**Mr. Serge Imbrogno:** It would be able to say, "We don't believe these would be prudently incurred costs, so you can't recover those," but Hydro One or whatever transmitter would go forward and would make their case to the OEB. So that whole process continues.

**Mr. Peter Tabuns:** So in saying that the government can set priority for transmission lines and that it can simply tell the OEB, "This is going forward. You can review the cost, but we're going to build it anyway," are you saying something different to me, that the OEB will retain the ability to deny a transmission line construction?

**Mr. Serge Imbrogno:** Right now, if you're a transmitter and you want to go and build a line, you would get the IESO to identify need to support your application to the OEB. You would go to the OEB, and they would give you the opportunity to incur costs to actually start the planning for the project. So you would know that those costs are recoverable.

**1550**

What we're saying is that you would still have the government working with the IESO, identifying through our long-term energy plan what we think are priority transmission projects. So not all projects are going to be priority; the government may identify whatever they believe is the appropriate one. Instead of then going to the OEB to say, "We want to be able to start planning for that project, whatever costs we incur," and the OEB would say, "Yes, those are recoverable," just the planning costs, we would say, "It's a priority project," and they can proceed through the planning stage and be assured that those costs would be recovered.

But they would still, then, have to go to the OEB once they had done all their planning, once they had done all their assessment work. The OEB would still have to approve all the costs and make sure they're prudent.

**Mr. Peter Tabuns:** And what if the OEB did not approve the costs?

**Mr. Serge Imbrogno:** I think that the OEB would approve prudently incurred costs. I think they'd have to go through a process, go through a hearing and hear from all the interveners, and then the OEB would make a decision.

**Mr. Peter Tabuns:** So the cabinet's designation of a priority for a line will mean that whether or not it's prudent for the system as a whole has already been resolved by cabinet.

**Hon. Bob Chiarelli:** They will have to be rate-based, and they have to approve on the rate.

**Mr. Peter Tabuns:** Let's just say you decided to build a line from Ottawa to Quebec, a new line. I'm not suggesting one in particular. You simply said to Hydro One, "Build that line, do your planning and go to the OEB to recover the costs that you have expended on this," but the OEB won't be able to say, "This line is unnecessary in terms of the system as a whole, and thus, we reject the whole line."

I want to make sure I'm understanding this. That's why I'm pressing you on it.

**Mr. Serge Imbrogno:** Once the government has identified a line as priority, the OEB couldn't then say, "No, it's not a priority."

**Mr. Peter Tabuns:** Okay. That's the clarity I wanted.

**Mr. Serge Imbrogno:** But it doesn't mean that the costs incurred by that line are automatically recovered or there is not a lengthy process—

**The Chair (Ms. Cheri DiNovo):** Just a note: You have a minute and a half left.

*Interjection.*

**The Chair (Ms. Cheri DiNovo):** Sorry, my mistake. Continue.

**Mr. Peter Tabuns:** And I thought we were on good terms, Chair.

**Hon. Bob Chiarelli:** I know it's important for you to get a specific answer to that question. Any costs that are recoverable have to be reasonable costs in the opinion of the Ontario Energy Board. The project can go ahead, but the costs are not necessarily recoverable. That's number one.

Number two, the IESO has very detailed regional energy plans in place, or going into place. The long-term energy plan has the same thing. The long-term energy plan, for example, identified northwest Ontario transmission needs. Those were identified in 2013, they're still in the plan and we're proceeding with that. That is a transmission line that is going to go up to Pickle Lake, and then it's going to service 21 remote First Nation communities. That's the process that will ensue.

My interpretation, my understanding is that they still have absolute control over what is rate-based or not. For example, the Supreme Court of Canada decision—

**Mr. Peter Tabuns:** No, I read the decision.

**Hon. Bob Chiarelli:** It quite simply said, "You incurred labour costs which," in their opinion, "were higher than they should have been," and so they did not give the cost recovery to the OPG for that.

In this particular case, the example that you're using, if, in fact, imprudent capital expenditures are made and the OEB feels that they are imprudent, I believe they have the option to say, "We will give you reasonable costs recovered, but not the capital that you've incurred."

**Mr. Peter Tabuns:** What I understand from what you've said is that the government will say, "This line will go forward. Hydro One, make reasonable expenses within your operations to make it go forward." The OEB can judge whether or not expenses were reasonable. Say there was a huge budget for hospitality; they could say, "No, that's not allowable."

**Hon. Bob Chiarelli:** There's an issue in the premise that you just made: that it's going to be Hydro One. It might be Hydro One, but the OEB will control the process in terms of—as they did, for example, in the east-west tie in northwest Ontario. That went to basically a competitive process. The existing Hydro One bid on it and did not win that.

So the OEB has already been moving towards a process that would make it more cost-effective by making it more competitive. That will continue with the new Hydro One, with public ownership, and they will not automatically be awarded a contract to do a transmission project. It will go through the OEB.

**Mr. Peter Tabuns:** I think I understand the framework, then. Do you have any projects at this point that you are considering putting forward that will not go through a full OEB needs test before you get on to the whole question of rates and construction costs?

**Hon. Bob Chiarelli:** The northwest, the—

**Mr. Serge Imbrogno:** Yes. All the priority projects identified in the long-term energy plan would be under consideration by cabinet, but we haven't moved forward with any designation at this point.

**Mr. Peter Tabuns:** Okay. I'm going to go back to your strategy section on page 7. You talk about environmental stewardship, putting conservation first before building new generation and transmission facilities where cost effective.

Now, Hydro One will make its money on the assets that it owns, so if there's more demand in an area and they have to build more transmission, they will make money off that transmission. They won't particularly be friendly to someone who's trying to undercut their market. If you reduce the need for transmission services, you've reduced their potential to make money. How are you going to deal with their possible lack of co-operation with your need to actually invest in conservation?

**Hon. Bob Chiarelli:** Hydro One will be a utility like all the others. It will be like PowerStream, Ottawa Hydro and Toronto Hydro, and it will be a distribution company which also does transmission.

Maybe you can talk about, let's say, if any LDC, which would include Hydro One, required additional transmission or requested additional transmission. What would the process be?

**Mr. Serge Imbrogno:** Hydro One transmission would be subject to market rules established by the IESO, so they would have to follow those market rules. They would also be subject to the OEB. The whole point would be that if transmission is required to facilitate some kind of distribution/conservation project—renewables, that kind of thing—that would come under



the IESO market rules for open access to everyone and under the OEB to allow CDM to continue the conservation within a management framework.

So the regulations are in place. The regulators are in place to allow that to happen. There are protections against Hydro One not allowing open access to the transmission or not building the appropriate infrastructure. I think it would be in Hydro One's interest to build that infrastructure, because obviously as you build more capital and that comes into the rate base, for Hydro One it's a benefit. But, saying that, they are still subject to rules from the IESO and also from the OEB.

**Hon. Bob Chiarelli:** In other words, if Hydro One wanted to proceed and did proceed with a transmission initiative without adhering to the guidelines or whatever the requirements are for the OEB, they could probably do it, but they can't cost-recover. They will not get the cost recovery from it.

**Mr. Peter Tabuns:** So if you have an energy conservation program that eliminates the need for an extra line into a municipality, and they decide they're going to build a line anyway, they won't get cost recovery? Is that what you're saying to me?

**Hon. Bob Chiarelli:** Yes.

**Mr. Peter Tabuns:** Okay. Do you have a sense at this point as to how much money Hydro One is going to put into buying local distribution companies?

**Hon. Bob Chiarelli:** The answer to that is a simple no, in the sense that they will be in the same situation as Toronto Hydro, PowerStream or any other LDC that wants to consolidate—or if they want to purchase or do a joint venture, whatever it is. They will be subject to having to use their own devices to cause that to happen.

Now, we've made it easier for LDCs for a short period of time. The departure tax and the transfer tax that normally would be payable—we're giving them a breathing space of, I think it's three years to incent consolidation.

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There is no forced consolidation. It's all voluntary. I think it's important that we understand the concept here. They're going to be an LDC like Toronto Hydro. They'll also have transmission, but they're going to be an LDC like Toronto Hydro or anybody else. They've got to deliver service, they've got to be subject to the Ontario Energy Board, and that's the way it will work.

**Mr. Peter Tabuns:** So your expectation is not that they will be buying up LDCs across Ontario?

**Hon. Bob Chiarelli:** First of all, Brampton and PowerStream—we think it's significant and helpful in terms of consolidation—are making their own case to their own councils and their own shareholders to move forward with that.

For Hydro One, it will have to be a business case that they make to be responsible to the policies that the board puts in place and that will be in the interests of the shareholders, including the largest shareholder, which will be the province of Ontario.

**Mr. Peter Tabuns:** And what is the interest of the largest shareholder right now? Does the largest shareholder want them to buy up a lot of LDCs?

**Hon. Bob Chiarelli:** There's a board that's been put in place. They're managing the company and they're responsible to all the shareholders, not strictly—so we're a shareholder, we're an investor, like anybody else. There are other policy issues—the legislation and governance agreements that we believe protect the public interest. But that will be a decision for the board of directors.

It's not very much unlike the acquisitions that Hydro One, in its current state, has already done. It acquired Brampton, it acquired several other LDCs recently. It's not a private sector company, it's not a public-sharing company, but it did that by a decision of the board and the management team. It reported to the shareholder.

I can tell you, unless I'm not informed, that we did not interfere with that decision. We treated Hydro One, in its present form, as an independent corporation with an independent board making independent decisions. Even though we had to account for it in question period, on billing issues or something else, we were not controlling their decisions in that regard, and we won't in the future.

**The Chair (Ms. Cheri DiNovo):** I just wanted to say, Mr. Tabuns, now you really only do have a minute and a half left.

**Mr. Peter Tabuns:** It passes so quickly, Chair.

**Mr. Serge Imbrogno:** If I could just add to that: In 2012, the minister asked the panel to look at LDC consolidation, and they reported back that there were major benefits of additional consolidation that could be passed on to ratepayers. I think the government has consistently put in policies to support that.

Previously, public-to-public transfers were exempt from transfer tax. As the minister said, the government has moved further on that, so small LDCs would not be subject to the transfer tax or it would be a reduced capital rate for others. I think it's consistent with the overall government policy to incent consolidation, but on a voluntary basis.

**Mr. Peter Tabuns:** And have you done a calculation on how much money the Ontario Electricity Financial Corp. will lose from that reduction in the departure tax? Because obviously that tax is used to reduce the debt leftover from Ontario Hydro. Do you know how much you expect to lose?

**Mr. Serge Imbrogno:** Because you're exempting \$30,000 and under, I would suggest it's a small number because of the payment in lieu of taxes from those small LDCs.

**Mr. Peter Tabuns:** And the larger ones?

**Mr. Serge Imbrogno:** Well, the larger ones aren't totally exempt—

**Mr. Peter Tabuns:** No, they aren't.

**Mr. Serge Imbrogno:** —so only the small are exempt.

**Mr. Peter Tabuns:** They're not totally exempt, but they're partially exempt. Have you calculated how much revenue we're going to lose?

**Mr. Serge Imbrogno:** We haven't done that calculation. When the Ministry of Finance does its update on the finances of OEFC, I think they will take into account those interactions.

**Hon. Bob Chiarelli:** The consolidation historically, in the recent past, was so limited in terms of the numbers that we were not generating any tax in any case because the consolidations—

**The Chair (Ms. Cheri DiNovo):** I'm sorry, Minister and Mr. Tabuns. The time is up. We now move back, in fact, to the minister.

**Hon. Bob Chiarelli:** Rather than do our questions, I'm doing an additional presentation, and hopefully it will be within the time period.

I appreciate the opportunity to further discuss the priorities of the Ministry of Energy. I'd like to take this time to speak to our government's efforts to broaden the ownership of Hydro One.

I'd like to begin by introducing, once again, Sharon Geraghty, our legal adviser from Torys—I will not be asking her to speak this time—who has been supporting the development of this project.

As you know, there are strict securities law rules that dictate how the government, or Hydro One itself, must conduct itself in its public communications as we broaden the ownership of Hydro One. During what is called this “quiet period”—which is a legislated, regulated quiet period—before the initial public offering concludes, there are a set of established rules to protect the public interest and to ensure that our communications do not unfairly promote investment in Hydro One. The regulator, the Ontario Securities Commission, wants investors to base investment decisions solely on the disclosure in the prospectus. These rules apply to any shareholder of any publicly traded company in this situation, in any IPO. The government must respect these rules—Hydro One must respect these rules—given that the public interest is at stake, and the rules are set in legislation to protect that specific purpose.

Ms. Geraghty joins us today to assist in ensuring that, in answers to your questions, I and the deputy and our team are conscious of these rules, because our conversation here today is open to the public and therefore falls under the quiet-period regulated restrictions.

In each of my answers, I will endeavour to provide as much information as I am legally able, and consistently speak to the broader public policy benefits we see arising from the decisions taken.

The publicly available prospectus, which I think has been circulated to the members here—it has been available for the last several weeks publicly—which provides comprehensive, detailed information about Hydro One and its business affairs, can provide instructive content to answer most of the questions of that nature.

Unfortunately, I'm not able to expand on the content beyond what is in the prospectus, but it's significant detail that is in there, as you are already aware. Securities law is rather clear in this respect, but I will do my best to answer your questions as completely as possible within the restrictions of this regulated quiet period.

As the members of this committee know well, innovation and creativity have always been the hallmarks of the energy industry. As we modernize the way we deliver

clean, affordable and reliable electricity to millions of Ontarians, these principles must remain core to our mandate.

The creativity in this sector has seen Ontario Hydro, which historically provided 100% of the distribution service to consumers in Ontario at the retail level—to Hydro One currently providing only 24% of electricity delivery. It's important that we understand that. When we're talking about Hydro One, they only have 24% of the distribution or delivery of energy business in the province of Ontario at this time.

This took place under eight years of PC/Mike Harris rule and 12 years under Liberal government. Both governments did innovation and changed the system and how it operates. So it's important that we look at the reality of what the system is today in terms of how we move forward.

Transition and change are a natural part of innovation in our energy sector. We are now innovating to invest in needed infrastructure, without taxing for it, borrowing for it or eliminating programs for it. The net proceeds from the initial public offering will be dedicated to the Trillium Trust and will be part of the largest investment in infrastructure in Ontario's history: more than \$130 billion over 10 years, which will support more than 110,000 jobs per year. I repeat—

**The Chair (Ms. Cheri DiNovo):** Minister, just a minute—I just wanted to interrupt and introduce—we have a delegation from the Republic of Fiji. I just want to welcome them to the proceedings.

**Hon. Bob Chiarelli:** Thank you. Welcome.

**The Chair (Ms. Cheri DiNovo):** Sorry, Minister. Continue, please.

**Hon. Bob Chiarelli:** I repeat, it is important to note that investing the net proceeds in infrastructure provides us with funding that does not come from taxes, debt or cutting services.

It is essential that Ontario be a leader in meeting Canada's infrastructure deficit, to maintain and enhance both our quality of life and our economic productivity.

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Ontario will maintain a strong governance arrangement that meets these objectives of supporting the public interest. We've taken clear steps to ensure this through legislation and governance provisions. We have passed a legislative requirement that the government will remain the single largest shareholder at a minimum of a 40% stake, and by law require that no other shareholder be permitted to hold more than 10%. We have ensured that the government will have the power to remove the board of directors if needed, and will always maintain a minimum of 40% of the board's seats.

To focus our priority on the customer, Hydro One will also be required to create a dedicated ombudsperson similar to those found at other public companies, who will help to ensure customers have a strong voice and are respected.

We have ensured Hydro One is set up to meet these goals with the people in place to lead the transition. In

July, the province appointed a new board of directors for Hydro One to oversee the company as it prepares to become publicly traded. They are a team of proven leaders who have a renewed focus on customer service, excellence and improved performance and reliability. The new CEO, Mayo Schmidt, took over about a month ago. He comes with a strong record and impressive career history. This evolving role is one that will be a game-changer for our system and, I believe, one that is badly overdue.

As we move forward, ensuring strong protections for consumers will remain a top priority for our government. The OEB plays a central role in this agenda. That is why last June we introduced Bill 112, the Strengthening Consumer Protection and Electricity System Oversight Act, that will, if passed, strengthen the Ontario Energy Board's regulatory ability to ensure Ontario's policy goals are met across the sector.

As you all know, the OEB is an independent regulator which adjudicates applications for electricity rates, is focused on protecting ratepayers and ensures the high standard of service delivery Ontarians expect from their energy sector. Regardless of the utility before them, the OEB's mandate is to protect the interests of ratepayers and to set just and reasonable rates, whether that's Enbridge, Ottawa Hydro, multiple municipalities like York region's PowerStream or privately held like Fortis energy.

Let me re-emphasize this point: It is the Ontario Energy Board that sets the rates that can be charged to ratepayers, not the utility proper. This has always been the case and this will continue to be the case under our government's stewardship and under our legislation and regulation.

The OEB sets rates for municipally owned utilities, for generators and for private companies such as Enbridge and Union Gas, and it will continue to set rates for Hydro One after the IPO.

There are numerous examples of times when the OEB has in fact received an application from a utility to increase rates and delivered a reduced rate for consumers. This is done based on facts and evidence filed before the board, this is done based on an open and transparent public hearing process, and this is done with fairness for the ratepayer and customers foremost in mind—part of the mandate of the OEB.

For example, in 2010 Hydro One asked for a distribution rate increase, but received a 9% reduction for its capital request. In 2012, Hydro One asked for a rate increase for transmission, and the OEB ruled a 3% reduction for its capital request. In 2011, Toronto Hydro made a distribution request to the OEB and received about 11% less than requested. In 2014, OPG asked for a rate increase and the OEB approved about half the requested amount. When Ontario Power Generation applied for a 6.2% rate increase in 2011, the OEB not only denied the request, but lowered rates by 0.8%. Over the past six months, the Ontario Energy Board has also decreased natural gas rates for Enbridge and Union Gas customers.

The OEB reports that in the last six months, a typical residential customer with Enbridge Gas Distribution has seen their bills go down about \$105 per year, and Union Gas Ltd. customers have seen a decrease of \$184 a year. I can't recall the opposition raising that in question period.

Year after year, the OEB's mandate is to protect the interests of ratepayers. The OEB is an independent regulator with a mandate to protect the interests of Ontario ratepayers. Rate applications are reviewed by the OEB and they make the final determination on rate applications.

I want to refer to last week's Supreme Court of Canada decision. The Supreme Court of Canada has upheld the right of the Ontario Energy Board to ensure consumers pay just and reasonable rates for electricity, even if that means challenging Ontario Power Generation, or any other utility, on expenditures like collective bargaining labour agreements.

In a decision last Friday, the Supreme Court of Canada ruled on a long-standing dispute that began after the energy board determined OPG's labour costs were too high, and disallowed the full payment amount requested as part of its rate application covering 2011 and 2012. The Supreme Court confirmed that they will not get that rate increase.

The Supreme Court says, "The OEB's mandate is to review the underlying cost structure and make sure the costs that OPG seeks to pass off to customers (through) rates are just and reasonable." This ruling applies to all utilities, including Hydro One.

The decision stated, "The disallowance was intended to send a clear signal that OPG must take responsibility for improving its performance. Such a signal may, in the short run, provide the necessary impetus for OPG to bring its compensation costs in line with what, in the board's opinion, consumers should justly expect to pay for an efficiently provided service."

The Supreme Court decision supports the energy board's assertion that it was not constrained in its review of OPG's labour costs because it has a duty to look out for ratepayers and it cannot allow ratepayer interests to be subordinated to the interests of union employees. This reinforces the OEB's mandate, which is to protect the interests of ratepayers and to set just and reasonable rates.

As political advocates across the province say, "Rates are going to skyrocket because the ownership is being broadened and it's going to be a publicly traded company," that is just not possible and it's just not true. The Supreme Court of Canada, last week, has carved that in stone.

Even the leader of the third party, several days ago, in a letter to the Premier—copied to me as Minister of Energy—said, "The Ontario Energy Board is legislated to protect the interest of consumers with respect to prices and the adequacy, reliability and quality of electricity service."

I might also want to make a reference to the leader of the official opposition, who seems to be confused about

where he and his party stand on this issue. When asked about asset modernization in the context of Hydro One, he said, “I generally believe that the private sector can do a better job than the public sector. I ... think market conditions would be helpful for a lot of government agencies.” That’s Patrick Brown, May 5, 2015.

During the provincial election, the MPP from Carleton–Mississippi Mills stated, “We need to look seriously at privatizing the delivery of electricity...” We are not privatizing; we are broadening ownership, incidentally.

The PC Party has been in favour of taking Hydro One public for some time now. In fact, the latest white paper on energy policy—which is still PC policy—specifically suggests “opening both Hydro One and OPG to investment.” They state, “The goal is to create more efficient companies that are not entirely reliant on public money.”

The context here, for committee members, is that they state, “The goal is to create more efficient companies that are not entirely reliant on public money,” and the paper was developed and approved by leader Tim Hudak as well as the member from Nipissing, who was the energy critic at the time. The party’s white paper even recognized that consumer prices would continue to be regulated by the Ontario Energy Board. We copied the PCs on that point—thank you for your leadership.

Our government has even gone further by proposing Bill 112, which is about enhancing these powers to ensure strengthened protection of Ontario consumers, greater compliance and additional enforcement tools.

The OEB has taken important steps to put the consumer front and centre. Building on this success, we know that there is more that we can do to strengthen protections for consumers.

I’d like to take a moment to speak about the six key areas where this legislation will drive forward meaningful change, on behalf of ratepayers. First, the legislation would increase the ability of the OEB to levy financial penalties on utilities for non-compliance. The public rightly expects the highest standard from utilities regardless of their size or service territory and whether they are municipally owned, privately owned or any hybrid thereof.

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To that end, Bill 112 proposes increasing the cap for administrative penalties to a maximum of \$1 million each day that a contravention occurs. This is similar to the Alberta Utilities Commission as well as the Ontario Securities Commission.

Second, the OEB will be empowered to appoint a supervisor in situations where a distributor or transmitter is unable to meet its financial obligations or reliability standards. It’s got to deliver good service. This important measure would ensure that public and ratepayer interests would be protected and ensure continuity of service for affected communities.

Third, to help streamline and clarify the ability of LDCs to expand their business beyond electricity

delivery, this legislation will provide greater scope to engage in non-utility activities and to participate in the many innovations available to the electricity sector.

In other jurisdictions, utilities that started out as strict “poles and wires” distribution companies or businesses successfully expanded their interest to other services, including participation in our government’s various renewable energy procurements, to the benefit of both their ratepayers and their shareholders. But our proposed legislative changes will ensure that there can be no cross-subsidization of these other utility business enterprise activities by electricity ratepayers.

As we have seen in jurisdictions the world over, diversifying the lines of business in which a utility can participate can bring about significant value and pay sizeable dividends for shareholders. In Ontario, many municipalities would stand to benefit from an increase in dividends from their LDCs, as Renfrew is doing with their expansion, as we saw on Friday.

Fourth, in the busy age of social media and technological change, customers are more immediately able to offer feedback in real time. At present, the way in which the Ontario Energy Board relates to consumer groups—residential, commercial and industrial—are locked in a rigid process designed for a different era.

To support a more dynamic conversation with consumers and customer advocates, our proposed enhancements would allow the OEB to establish more nimble structures while enhancing customer advocacy and representation. In some cases, this will mean a more interactive OEB while in others, that might mean more capacity funding for specific consumer advocacy organizations.

I’m pleased to report that the OEB has already launched a dedicated consultation to help inform how additional consumer advocacy measures could be incorporated into a strengthened Ontario Energy Board.

Fifth, the proposed legislation would give cabinet enhanced powers to designate key transmission corridors to expedite their construction. Examples of such cases could be in the grid connection of Ontario’s remote First Nation communities in northwest Ontario, a transmission link to the Ring of Fire, or enhanced intertie capacity with neighbouring jurisdictions to support clean energy imports.

To support these important public policy goals, government will strengthen its role when it comes to electricity transmission infrastructure. That will create a process where the provincial government is firmly setting broad electricity and energy policy through its long-term energy plan and designating core transmission projects to ensure their construction and operation.

Sixth, and finally, we are proposing legislative amendments to strengthen consumer protection in the retail energy market. In recent years, the OEB has received numerous complaints from customers of retailers, many of them seniors. We know that ratepayers have voiced their concerns that some retailers have used very aggressive tactics to get homeowners to sign up for contracts on

the spot—contracts that may not be in their long-term best interests.

The OEB takes these complaints very seriously and so does our government. The proposed legislative changes to enhance consumer protection would prohibit the sale of energy retail contracts at the consumer's home while still allowing retailers and marketers to engage in appropriate marketing and advertising activities at the door. They just won't be able to sign the contracts at the door. This will help alleviate high-pressure sales tactics and allow for a more considered evaluation of a retailer's offerings.

In addition to banning door-to-door sales of retail energy contracts, we are also proposing to extend the cooling-off period during which consumers can cancel a contract without penalty from 10 to 20 days. These are important changes that will ensure protections for consumers are stronger and the system is more fair.

Taken together, these proposed changes would strengthen the Ontario Energy Board as well as ensure that provincial public policy goals are met through enhanced and expanded legislative tools. These changes would protect ratepayers, they would strengthen our electricity system and they would promote innovation and transformation that benefit all consumers.

Before I conclude, it is important we also discuss the way our government is moving forward to modernize local distribution systems across Ontario and encourage local distribution companies to achieve efficiencies to benefit their customers. As part of the 2015 Ontario budget, our government provided meaningful changes to end barriers that stand in the way of broader LDC consolidation. This will ensure our system can continue to meet the electricity policy needs of the 21st century. The reality is that in 2015, for Ontario to have a balkanized structure with over 70 LDCs serving 4.3 million residential customers just doesn't make economic sense.

Our policy of encouraging consolidation remains 100% a voluntary choice of LDCs. As outlined by the 2012 distribution sector review panel report, it's time to park the historical reasons for this sector's fragmentation and focus on driving efficiencies and ratepayer savings through significant consolidation. In fact, only about eight or 10 years ago, I guess before the Mike Harris consolidation and amalgamations, I think we had close to 300 LDCs. California now has four for about a 40- or 50-million population and we've got 70. The government is encouraged by the level of dialogue that is already taking place across the sector, meaning we can look to the future on this issue with some optimism.

Madam Chair, thank you for the opportunity to speak to this important undertaking. Our government will remain focused on building Ontario up. As we have been clear, we will find ways to make the largest infrastructure investment in the province's history without making reckless cuts to public services or risky tax hikes on hard-working middle-class families. We will remain focused on strengthening protections for consumers and ensuring the electricity system is managed in the public interest.

We will continue to ensure innovation and efficiencies are a priority for local distribution companies across Ontario, of which Hydro One will be one.

Thank you very much, and I look forward to your questions.

**The Chair (Ms. Cheri DiNovo):** Thank you, Minister. We're going to take a five-minute—only five minute—break and we will reconvene. It will be time for the official opposition. Thank you.

*The committee recessed from 1628 to 1633.*

**The Chair (Ms. Cheri DiNovo):** Let us resume. Could members please take their seats? We're resuming. Thank you very much.

We move now to the official opposition: Mr. Smith.

**Mr. Todd Smith:** Back to the minister, just following up on our questioning this morning: It took a while to get there, but eventually you did say that you were in the belief that you had a mandate to sell off one of our most important public assets in Hydro One, in spite of the fact that it wasn't very clear in your election platform.

I'm just wondering now, given the public outrage that we've seen on Hydro One, and the various protests that we've experienced here at Queen's Park, and even the virtual protests online and the resolutions that have been passed by various municipalities against the sale of Hydro One, do you think that municipalities were adequately consulted on the sale of Hydro One?

**Hon. Bob Chiarelli:** I think that they were influenced by particularly the third party, who travelled across the province creating opportunities for "dialogue" in which it was stated very, very clearly that rates would rocket, and it was repeated over and over and over again. I think that had its impact on some of the resolutions.

We are absolutely confident that the rates are not set by Hydro One now, and they will not be set by Hydro One in the future, or by OPG or Fortis or Enbridge or Union Gas.

We are absolutely convinced in the justification of our cause in the sense of repurposing assets—I referred to some of that this morning—in order that we can invest in infrastructure with significant proceeds into the Trillium fund. That's why we're doing what we're doing. We believe we're responsible, we believe it will not increase rates; in fact, it will probably help mitigate rates. On that basis, we're moving forward.

**Mr. Todd Smith:** You just actually said in your 30-minute speech that it would be almost impossible—I think your words were that it would be impossible for rates to go up. The Premier has never said that it would be impossible for rates to go up; Ed Clark has never said that.

**Hon. Bob Chiarelli:** No, I've said over and over again—if you understood it that way or if I misspoke—and we can always check Hansard. I have been saying over and over again that virtually every LDC, every utility in North America, is going to be continuing to increase rates; and the issue is, to what extent can we mitigate those increases moving forward? They are, at the very least, inflationary in the sense that they can

recover their costs—legitimate and reasonable costs in the opinion of the OEB—and they will continue to be rate-based in that respect.

The reality is that over the last several years, the increases in our price of electricity were quite significant. They were quite significant for a reason, and the reason is that we had to invest \$34 billion into the sector in new transmission, new generation. We took the opportunity to go from a deficit of generation to a surplus, from a dirty system to a clean system and to a system that was reliable. There were no more further threats of brownouts etc.

**Mr. Todd Smith:** The Auditor General obviously would—

**Hon. Bob Chiarelli:** That put pressure on rates, we acknowledge that, and we put price mitigation measures in place to accommodate the unusual concentration of capital that we had to spend to make the system reliable and clean—

**Mr. Todd Smith:** Thank you, Mr. Minister. I want to move on to my next question. My next question, Minister, is—

**Hon. Bob Chiarelli:** The number of—

**Mr. Todd Smith:** —you have said, really—

**The Chair (Ms. Cheri DiNovo):** One at a time, please, Mr. Smith.

**Mr. Todd Smith:** You've blamed the third party, the NDP, for all of these resolutions being signed but clearly, if you had gone out there and consulted with municipalities, then maybe the work of the NDP and our party wouldn't have been as effective as it has been.

Do you actually think that the public has been adequately consulted on this? You obviously didn't reach out to municipalities that are affected by this. Do you think that the public has been consulted properly on the sale of Hydro One?

**Hon. Bob Chiarelli:** The process and the question of mandate—we'll have to agree to disagree. From our perspective, back in April and May 2013, we had prepared a draft budget. We were in a minority government. That draft budget was very specific, and it mentioned repurposing assets, which included the possibility of broadening ownership of Hydro One. We talked about our energy agencies, we talked about the LCBO, we talked about the Beer Store etc. That's number one.

That document was out there before the actual election and it was subject to a lot of discussion. Around the same time, the Ed Clark advisory council was established and Mr. Clark made it very, very clear we were going to be looking at our energy agencies, and he was including OPG and Hydro One, both of them, at that particular point in time.

**Mr. Todd Smith:** Let me move on to a different question.

**Hon. Bob Chiarelli:** So it was very, very well known that we were looking at the types of ownership options for Hydro One.

**Mr. Todd Smith:** Thank you. I'd like to move on to a question for Ms. Geraghty. I'm sorry I didn't get to you

earlier this morning. I know you wanted to share your expertise with us. Let me ask you this question now on a totally different matter.

Beginning in 2008, the Ministry of Energy had an offshoring agreement that pertained to services provided by Inergi LP. Are you aware of that and is that correct?

**1640**

**Ms. Sharon Geraghty:** I can't verify the information specifically, but I'm sure the deputy could help me if—I know there was a contract—

**Mr. Serge Imbrogno:** Did you complete your question? I'm not sure—

**Mr. Todd Smith:** I'll repeat the question. Beginning in 2008, the Ministry of Energy had an offshoring agreement that pertained to services provided by Inergi LP. Are you aware of that?

**Mr. Serge Imbrogno:** Is this the issue that's before the courts now or the one before the—

**Hon. Bob Chiarelli:** The offshore program—

**Mr. Todd Smith:** This is the offshore—

**Hon. Bob Chiarelli:** —where there is litigation.

**Mr. Todd Smith:** This is an offshoring agreement that had been signed by previous ministers that would keep jobs in the energy sector in Ontario.

**Mr. Serge Imbrogno:** Sorry. If you keep going with the question, I—

**Mr. Todd Smith:** The agreement that was struck in 2008 by then-Minister Smitherman—

**Hon. Bob Chiarelli:** It's the one that's subject to litigation at the present time—

**Mr. Serge Imbrogno:** Yes. I'm trying to make sure that's the one—

**Hon. Bob Chiarelli:** —and it's the wind project, so that's what the framework is.

**Mr. Serge Imbrogno:** Right.

**Mr. Todd Smith:** It's been affirmed, it's been adhered to by subsequent ministers, and it pertains to Hydro One and it pertains to keeping jobs in Ontario.

**Hon. Bob Chiarelli:** It's before the courts, so we're not going to talk about it.

**Mr. Todd Smith:** Well, I believe I need to keep talking about it, and maybe if I could go back to your counsel on this—

**Hon. Bob Chiarelli:** Just to be clear, the counsel has been retained recently and is not privy to the historical files that we have—

**Mr. Todd Smith:** This is included in the prospectus, which is a public document. This is included in the prospectus. So the agreement—and I have a copy of it here—is referred to as a “Unanimous shareholder agreement” in the text—

**Mr. Serge Imbrogno:** Sorry. We misheard you.

**Hon. Bob Chiarelli:** You'd have to clarify more. You're being very obtuse, if I might add.

**Mr. Todd Smith:** I'm just asking about the unanimous shareholder agreement. It's mentioned on page 119—

**Hon. Bob Chiarelli:** What's in the agreement? We don't know what's in the agreement. Tell us what's in the agreement.

**Mr. Todd Smith:** Well, you signed it, sir.

**Hon. Bob Chiarelli:** Fine. Refresh our memories.

**Mr. Todd Smith:** You signed the agreement.

**Hon. Bob Chiarelli:** Refresh our memories.

**Mr. Todd Smith:** I have a copy of it right here.

**Hon. Bob Chiarelli:** I'd like to have a look at it. I'd be happy to look at it.

**The Chair (Ms. Cheri DiNovo):** Excuse me for a second. Mr. Delaney.

**Mr. Bob Delaney:** Chair, on a point of order: Just as in the Legislature, the member has to address subjects that are germane to the estimates before the committee—

**Mr. Todd Smith:** And it is.

**Mr. Bob Delaney:** —and if the minister has said that, one, the question is before the courts, he may not discuss it and, secondly, if the minister has asked to look up some point, then he should be allowed to do so.

**The Chair (Ms. Cheri DiNovo):** Thank you for that.

I go back to Mr. Smith.

**Mr. Todd Smith:** I've just forwarded over to you the documentation that was signed by you to the former CEO and president of Hydro One, Mr. Marcello.

On page 119 of the prospectus under "Termination of existing shareholder declarations and resolutions," it states, "In the past, the province has made unanimous shareholder declarations that, among other things: (i) restricted the rights, powers and duties of the Hydro One Inc. board in relation to the offshoring of certain jobs and the outsourcing of certain services;..."

It then goes on to state, "Immediately prior to the closing of the offering, the province will terminate all existing unanimous shareholder declarations relating to Hydro One Inc. and its subsidiaries, except for the declaration permitting the board to set the number of directors within the minimum and maximum number provided for in Hydro One Inc. articles."

So immediately prior to the closing of the offering, the province is required by the prospectus to terminate the unanimous shareholder agreement with Inergi LP. Is that correct? Because that's what it says in the prospectus as far as I can understand.

**Ms. Sharon Geraghty:** To my knowledge, the Inergi contract is not being terminated. What's being terminated is the agreement that the unanimous shareholder declaration that has provisions in it regarding outsourcing, but the Inergi agreement, to my knowledge, is not being terminated.

**Mr. Serge Imbrogno:** That's not being terminated; it continues.

**Mr. Todd Smith:** It's not being terminated, but there is the possibility, and there are clauses that exist within the prospectus, that would allow this to be null and void, this agreement that's in place right now, the unanimous shareholder declaration. It's cited in the risk section of the prospectus—

**Ms. Sharon Geraghty:** I want to just explain what a unanimous shareholder declaration does, because I think that's the reason there was some misunderstanding as to the nature of your question.

**Mr. Todd Smith:** Okay. Yes. Thank you.

**Ms. Sharon Geraghty:** So a unanimous shareholder declaration is a requirement of the shareholder that imposes an obligation on the directors to act in a certain way. As part of the offering, because the government will no longer be the sole shareholder, the unanimous shareholder declaration process will no longer be in place and they will be terminating those, except the one that you mentioned, which goes to the question of who gets to determine how many directors are elected each year.

So it's not a termination of the energy agreement. It is a termination of the unanimous shareholder declaration that removes the powers of the board in that respect.

**Mr. Todd Smith:** Right. Okay, but on page 163 of the prospectus, there is the opt-out that exists, right? It's in the risks section of the prospectus. One of the risks mentioned in the prospectus is costs incurred by ending the contracts with Inergi early. It specifically mentions that, in that section. It's page 163, if you don't have it already.

**Ms. Sharon Geraghty:** It's the bottom of page 163. But that's not related to the termination of this unanimous shareholder declaration. That's a risk factor. Risk factors in the prospectus are designed to explain all the possible risks that can go wrong with the business so that investors know what they are, and so there is a risk factor dealing with a number of things. It's not a case that the company thinks that these things are going to happen, but there is an obligation under the securities law rules to identify things that could go wrong with the business and explain them to investors. But it's not connected to the unanimous shareholder declaration.

**Mr. Todd Smith:** But there is the possibility that the new CEO and president of Hydro One could opt out of the deal with Inergi.

**Ms. Sharon Geraghty:** There is an agreement in place—

**Mr. Todd Smith:** Yes, until 2018-19, from what I understand.

**Ms. Sharon Geraghty:** And again, in the management of the business of the expiry of the agreement, the board will decide what to do with that agreement. The board will be making decisions about the agreement.

This risk factor is not designed to tell you or any investor that something is going to happen to the Inergi agreement before that. It is simply identifying that there is a relationship in place, an outsourcing arrangement in place, on which the business relies, and at the end of the period, if that arrangement doesn't get renewed, there will have to be a new arrangement in place or new arrangements made. It's designed to explain a risk factor to investors—again, no connection with the unanimous shareholder declaration that's being revoked.

**Mr. Todd Smith:** So why, then, is it being revoked?

**Ms. Sharon Geraghty:** All of the unanimous shareholder declarations that remove the powers of the board are being revoked, because that is something you can do as a sole shareholder but this company will have broadened ownership, and the government will no longer

be a sole shareholder in a position—and it is actually very clearly in the governance agreement—put the powers in the place of the very qualified board that is going to be managing the business. That is again one of the features of the governance arrangement that you discussed earlier this morning.

**Mr. Todd Smith:** But one of these agreements that's in place, and the one—and just let me read it into the record—that was sent to Mr. Marcello from Minister Chiarelli back in October 2013:

“I am writing to advise you that I am exercising my powers as the sole shareholder of Hydro One Inc. to require that all new procurements by Hydro One Inc. for work currently being done by Inergi LP under its existing outsourcing agreement with Hydro One Inc. include a requirement that the work be performed in Ontario by persons employed and residing in Ontario.

“Thank you for your prompt attention to this matter.”

It's signed by Bob Chiarelli, the minister.

According to the prospectus, it's saying that unanimous shareholder declarations will be terminated, and that would include this one, which would potentially open the door for outsourcing these jobs offshore, would it not?

**Mr. Serge Imbrogno:** When the minister sent that declaration, they were in negotiations. They have completed those negotiations and extended the contract, so that issue won't come up until the contract expires. At that point, it will be up to the board, and, I guess, negotiations with the union and their workers, what they do going forward. So it doesn't end the contract. It just says, going forward, it's a board decision.

**Mr. Todd Smith:** That's right. It doesn't end the contract. I would agree that it doesn't end the contract, but it doesn't prohibit the new board and the president and the CEO from ending that early and moving jobs offshore.

The new president and CEO of Hydro One has a history of moving jobs out of the province. He was recently with Viterra in Saskatchewan. Jobs were moved from Saskatchewan to other jurisdictions out of the province where they were, because he had the power to do that as the CEO and president of that company.

Who is to say that the new president and the board won't do the same thing with Hydro One: move jobs offshore, move them to India, move them wherever he wants to move them to save some money? He's moved jobs from Saskatchewan to Colorado and jobs to other provinces and jurisdictions across Canada.

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**Hon. Bob Chiarelli:** These are business-related decisions that are going to be made—

**Mr. Todd Smith:** Yes, they are.

**Hon. Bob Chiarelli:** —by an independent board. You may recall that a labour agreement was negotiated with the Power Workers' Union and with the society. There are provisions in there, in fact, that contemplate further outsourcing in the sense that the set-off for the 1% annual increase will come from the unions having agreed to allow further outsourcing to happen. It doesn't identify

where the outsourcing is going to be. It's creating the framework—both that type of union agreement with the Power Workers' Union and Hydro One, the way this contract has been dealt with—to give more independence to Hydro One to move forward. It's being done in a context that is compatible with any concerns that the union might have, because they're agreeing to permit further outsourcing.

**The Chair (Ms. Cheri DiNovo):** Mr. Smith, you have about two and a half minutes left.

**Mr. Todd Smith:** Thank you.

But the bottom line here is that you will have no control over how many jobs in Ontario—good-paying jobs, by the way; I believe these jobs pay \$24 an hour. You have no idea, because you're handing control over to a new president and CEO who's ultimately going to make the decisions on how efficiently he wants to run the company because he answers to shareholders, not the province of Ontario. How many jobs are you willing to lose to other jurisdictions as a result of this deal to sell Hydro One?

**Hon. Bob Chiarelli:** That's an issue that an independent board and independent management is going to deal with. They'll deal with it in the context, as it always is, in terms of negotiating with the unions, which is a significant issue. The people of Ontario expect Hydro One to make the best decisions in the interest of the major shareholder, which is the province, as we move forward.

**Mr. Todd Smith:** Do you know that just prior—

*Interjection.*

**Mr. Todd Smith:** I just want to get one more thing in if I could, Mr. Imbrogno.

Prior to the minister signing this unanimous shareholder agreement on offshoring that he signed in October 2013, Hydro One had bidders for the services that Inergi was supplying to Hydro One, and they were entirely offshore. Did you know, that all of the bidders for those services prior to you signing this agreement were offshore? Those jobs will be gone. You can almost guarantee it. Did you realize that? These are good-paying jobs in Ontario that could be moving offshore to India or anywhere else in the world.

**Hon. Bob Chiarelli:** I'm not going to speculate on what the board might determine moving forward.

**Mr. Todd Smith:** But you're aware that these jobs could be moving out of Ontario?

**Hon. Bob Chiarelli:** I'm aware of the fact that both the Power Workers' Union and the society of engineers have agreed to a 1% increase or a 0.5% increase, depending on which union, on the basis that Hydro One will be able to outsource X number of contracts not specified.

**Mr. Todd Smith:** And Mayo Schmidt has a history—

**Hon. Bob Chiarelli:** The deputy has a—

**Mr. Serge Imbrogno:** Can I just step away slightly? I think it's important to note that in the Electricity Act, we've required Hydro One to maintain the grid control centre in Ontario. We've required that Hydro One maintain their head office in Ontario. We—



**The Chair (Ms. Cheri DiNovo):** I'm sorry, that is the end of this section. Thank you very much. Hold that thought.

Member of the third party, Mr. Tabuns.

**Mr. Peter Tabuns:** Going back to where I left off about the loss of funds that arise from reducing the departure tax, I gather there's been no calculation as to what we will lose. Has there been a calculation of the loss of funds to the province if payment in lieu of taxes is decreased and replaced by these now-privatized distribution and transmission companies paying provincial tax and paying federal tax?

**Mr. Serge Imbrogno:** We don't have that calculation.

**Mr. Peter Tabuns:** So we're engaged in a very large-scale operation here of allowing the privatization of LDCs across Ontario, we're privatizing the largest utility in the province, and we haven't calculated its impact on our bottom line? Is that correct?

**Mr. Serge Imbrogno:** Sorry, I'm just—I want to clarify your question. You're talking about our encouragement of LDC consolidation and the changes made to the transfer tax?

**Mr. Peter Tabuns:** Yes.

**Mr. Serge Imbrogno:** I think the Ministry of Finance would have, in their deliberations, made a calculation. I don't have that. In the Ministry of Finance estimates, that's a question you could pose to them.

**Mr. Peter Tabuns:** So if those estimates are made, they haven't been made by you.

**Mr. Serge Imbrogno:** That's correct.

**Mr. Peter Tabuns:** So you haven't made—

**Mr. Serge Imbrogno:** They have been made as part of the budget. We don't do the budget. It's their final calculations that are important.

**Mr. Peter Tabuns:** So you, as the Ministry of Energy, haven't looked at the amount of money that's going to flow out of Ontario in federal taxes, money that's currently coming to Ontario in payment in lieu of taxes. Is that correct?

**Mr. Serge Imbrogno:** That's all part of the consolidation of the OEFC as part of the Ministry of Finance budget calculations.

**Mr. Peter Tabuns:** And so in terms of operations currently, the consolidated net revenue from OPG and Hydro One—it's over \$1 billion a year; it comes into the provincial treasury—you haven't done a calculation as to how much less will be coming to pay off our debt arising from Ontario Hydro.

**Mr. Serge Imbrogno:** No. That would be the Ministry of Finance.

**Mr. Peter Tabuns:** Okay. Can you tell us how much currently comes from Hydro One every year to the provincial treasury?

**Mr. Serge Imbrogno:** I think it's in the prospectus. There are numbers in terms of the net income and payments with taxes. I could find it for you, but I think that's publicly available. It would also be in the Hydro One financial statements as well. It's the combined payments from the taxes plus the net income.

**Mr. Peter Tabuns:** So the fact that 60% of that revenue will now be going to other investors rather than Ontario is not consequential to the Ministry of Energy?

**Mr. Serge Imbrogno:** Well, for the Ministry of Energy, it's running the system, it's ensuring that reliability, ensuring that we get the investments. I think for the Ministry of Finance and government in general, it's how to use those proceeds. We're maintaining the 40% ownership, so we're not selling 100%. We're maintaining the potential for having 40% of a company going forward.

**Mr. Peter Tabuns:** So we will get 40% of the profits from Hydro One in future, rather than 100%?

**Hon. Bob Chiarelli:** It's 85% in the first year. It's progressive.

**Mr. Peter Tabuns:** No, I know it's progressive.

**Hon. Bob Chiarelli:** We expect that the revenues will even out as our percentage goes down—

**Mr. Peter Tabuns:** —so that where we're getting 100% of revenue from Hydro One now, we'll be getting less than 50% of the revenue from Hydro One. Is there a plan in the Ministry of Energy to make up for that lost revenue?

**Hon. Bob Chiarelli:** There are projections that are in the prospectus in terms of the growth of the business, and we expect that the growth of the business, over a period of four years or five years, which is the period that the IPO will go in stages, will likely even out.

**Mr. Peter Tabuns:** You're expecting the business to grow substantially, then. Is that correct?

**Hon. Bob Chiarelli:** It's in the prospectus, so I—

**Mr. Peter Tabuns:** Well, you've just said to me that as time goes on, the revenue will increase.

**Hon. Bob Chiarelli:** I've probably already overstepped the regulation in terms of anticipating growth. I'm getting a wink here that I shouldn't be speaking about that, because I'll be saying what a great investment and I'm not supposed to say that.

**Mr. Serge Imbrogno:** Again, going back, it is part of the budget process. It would be the Ministry of Finance determination of what the future projections are and building that into the budget process, using the net proceeds now to invest in infrastructure and building them into the budget projections.

**Mr. Peter Tabuns:** Can you speak to where you expect this growth to come from?

**Ms. Sharon Geraghty:** I'm just going to caution the ministry again that the prospectus outlines the growth strategy of the company, and he should not be expanding on that in any way.

**Mr. Peter Tabuns:** Do you want to just expand on what the prospectus says? Perhaps for the record, you can tell us where this growth is expected to come from?

**Ms. Sharon Geraghty:** The prospectus talks about what the strategy of the company would be. I'd be happy to read it out loud to you if you like, but it talks about the nature of the growth of the company. It might take up some time, but I'd be happy to take you to that section of the prospectus if you like.

**Mr. Peter Tabuns:** I'll come back to you with more questions.

I'm going to go back to a question that my colleague was asking about the offshoring. Why did Ontario write a letter to Hydro One saying, "We don't want you to off-shore"?

**Mr. Serge Imbrogno:** I think it was a determination at the time that our preference was for Hydro One to use Ontario manufacturers and suppliers. Since then, there's also been a move to allow more outsourcing of services. As Sharon pointed out, as we move forward with the IPO, all the shareholder declarations would fall away, and then it becomes part of a board business decision going forward.

1700

**Mr. Peter Tabuns:** If I can go back, though, to the minister: Capgemini is outsourced. It was already outsourced. I assume that in the next while it will continue to be. What you did was a directive saying, "You can't offshore it. You can't take vital IT functions and move them to India or China." Why did you say that, then?

**Hon. Bob Chiarelli:** Hydro One as a crown agency operated in a certain way in which the intervention of the government could be expected under certain circumstances. The prospectus is very clear that it's going to be managed by the board, by the new management. We're basically going through a vetting process where we want to make sure that they have the right to make those decisions, and those decisions will be made by the new board and by the new management.

**Mr. Peter Tabuns:** So what was your public policy goal in saying, "You can't offshore these IT and IT-related functions"?

**Hon. Bob Chiarelli:** The trend was causing us some concern. It was causing some concern as well to the unions, for obvious reasons, particularly given the agreement that we negotiated with the two unions which included specifically our right to do more—Hydro's right to do more outsourcing was an accord. That's the way the corporation is going to be moving forward.

**Mr. Peter Tabuns:** There's outsourcing—

**Mr. Serge Imbrogno:** And, sorry, as I mentioned, in the Electricity Act we've also put in place restrictions in terms of head office, restrictions in terms of grid control centre, so we move forward with other restrictions—

**Hon. Bob Chiarelli:** Outsourcing is not going to gut the workforce of Hydro One, because basically the legislation requires the operations to be in Ontario.

**Mr. Peter Tabuns:** Well, it requires part of the operations to be in Ontario.

**Hon. Bob Chiarelli:** Substantially all.

**Mr. Peter Tabuns:** "Substantial" allows an awful lot of wiggle room. You had concerns before about offshoring these vital services. I'm assuming that the prohibition on offshoring is now gone. Are you concerned that these vital jobs will be offshored?

**Hon. Bob Chiarelli:** I think we have to look at: Hydro One is an independently managed corporation. To the extent that it might be outsourcing, it will be in the same

situation as many other companies in the private sector. Whatever regulations or laws or economic imperative require decisions to be made, they will be made in that context, the same as Enbridge. In other words, if you think in terms of the workforce of Enbridge and the workforce of Hydro One in terms of the outsourcing issue, there will be a level playing field.

**Mr. Peter Tabuns:** Yes, there's outsourcing and then offshoring. I have problems with outsourcing; that's another discussion. But clearly you understood, as minister, the problem with sending our work overseas so that the ability to employ Ontarians in sophisticated data management and IT functions would be eliminated. You took action to protect—I'm assuming your concerns were with keeping these very high-value jobs here for Ontarians. That is now going to be abandoned. That is correct.

**Hon. Bob Chiarelli:** No, it's not being abandoned, because in fact we've changed the law to ensure that it will not be done in a significant or wholesale manner, because it requires the workforce to be located here in Ontario. That's enshrined in the legislation.

**Mr. Peter Tabuns:** I'm not sure that the people who are doing that work currently are aware that they've been protected in that legislation. Have you discussed this with them?

**Mr. Serge Imbrogno:** The legislation ensures that the grid control centre remains in Ontario. It defines the head office and what we mean by head-office type of workers. That is all part of the legislation.

There may be scope for Hydro One even to outsource to other provinces. These things are possible, but it's part of the collective agreement bargaining with the unions as well. That will be part of that process going forward.

As the minister has already said, Hydro One has already secured some outsourcing—I know it's not offshore—but outsourcing concessions from the union as part of the negotiation. I think that will be that process going forward.

**Hon. Bob Chiarelli:** It's not a significant threat to the workforce in Ontario when you look at the composition of the employees at Hydro One: the line workers, the truck drivers, the call centres which are going to be located here. The head office is going to be located here. The risk factor for large numbers of jobs to be offshore is very significantly mitigated.

**Mr. Peter Tabuns:** I may well come back to you on that, Minister.

Another line: Immediately after the prospectus was released, Moody's downgraded Hydro One's credit rating, and its outlook for Hydro One remains negative. Markets have responded to the increased perceived risk and Hydro One's bonds have lost 4.2% of their value since the IPO announcement in April. If Hydro One's borrowing costs go up, can these increased costs be passed on to consumers?

**Mr. Serge Imbrogno:** I don't want to get too specific. I would say you have to be careful that you don't equate the Moody's downgrade to what's happening in the bond markets. I think you need to separate those two; it's not a

cause and effect. I think everyone is affected by what's happening in the bond markets so the extent to which the downgrade had the impact that you're referring to on the bond yields I think is a bit speculative.

If you do the analysis, others—

**Mr. Peter Tabuns:** Let's go to another question then. If the borrowing costs go up for Hydro One, for whatever reason, those costs can be passed along to the consumers, to the ratepayers?

**Hon. Bob Chiarelli:** If I can just give some context from my briefing note: Hydro One continues to have a strong, stable credit rating at the upper tier of comparable Canadian utilities. In fact, Hydro One holds a stronger rating than utilities like Enbridge, TransCanada, Fortis and Emera. This means that Hydro One's borrowing costs are much less than relevant comparators.

**Mr. Peter Tabuns:** That's useful to know, Minister, but if, in fact, their borrowing costs go up, they can pass those costs on to their consumers and hydro rates can go up. Is that not correct?

**Mr. Serge Imbrogno:** I think borrowing costs are one of the costs that OEB would allow to be passed on to ratepayers.

**Mr. Peter Tabuns:** Okay.

The government likes to mention that Hydro One will be bound by the same rules that bind other corporations under the Business Corporations Act, but Bill 91 amended the Electricity Act to give Hydro One some very unusual exemptions to the Business Corporations Act. For example, Hydro One is now exempted from section 23 of the BCA and has the ability to give away Hydro One shares for free.

Hydro One is also exempted from section 24 of the Business Corporations Act in that it may add the value of issued shares to the appropriate capital accounts without having to go through the share evaluation process described in section 23 of the BCA.

Can you see a scenario in which this new corporation would issue a variety of shares that would dilute the value of the provincial interest?

**Ms. Sharon Geraghty:** Those provisions were added to deal with some technicalities and there's no expectation at this point, from my knowledge, that they're going to be used. But they're not intended to do what you just said.

**Mr. Peter Tabuns:** Why were these exemptions added?

**Ms. Sharon Geraghty:** If I can flip to the actual exemption that you're referring to, those are two provisions of the Business Corporations Act that require you, when you're issuing shares for anything other than cash, to obtain the fair value of the shares. It also has a provision that requires a certain amount to be added to the stated capital.

In both cases, it's not unusual to have a provision like that in legislation when you're dealing with a corporate statute. There is nothing at this point that Hydro One has indicated in its prospectus that it will be doing with respect to those provisions. We're not aware of anything

that they're doing. They were added at a time to deal with some technical issues under the statute in case the re-organization required it, but at this point we do not think that's the case.

**Mr. Peter Tabuns:** What were those technical issues?

**Ms. Sharon Geraghty:** There aren't any.

**Mr. Peter Tabuns:** I thought you just said there were technical—

**Ms. Sharon Geraghty:** At the time, we thought there might be, but as far as I know there are none.

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**Mr. Peter Tabuns:** What were the ones you were worried about at the time?

**Ms. Sharon Geraghty:** When you are issuing shares, if you issue them for no consideration, then you have a corporate law issue, but that step is not going to be required.

**Mr. Peter Tabuns:** So there will be no shares issued without consideration? All shares will be issued and money will have to come back in?

**Ms. Sharon Geraghty:** This transaction does not involve at the Hydro One level—the company will be a public company—the issuance of shares. It involves the transfer of shares by the government on the IPO. There is not a new issuance of shares to the public. It is a transfer of shares by the government of a portion of its interest in the company.

**Mr. Peter Tabuns:** Okay. Hydro One has been exempted from section 42 of the BCA, which prevents corporations from putting restrictions on who may buy or sell publicly traded shares, unless these restrictions are necessary under federal or provincial statute.

Why did the ministry give Hydro One the power to decide for itself who may buy or trade Hydro One shares without reference to any provincial or federal statute?

**The Chair (Ms. Cheri DiNovo):** You have about three minutes left, Mr. Tabuns.

**Ms. Sharon Geraghty:** Can you give me the section again? Are you talking about a new section in the Electricity Act?

**Mr. Peter Tabuns:** Section 42 of the Business Corporations Act.

**Ms. Sharon Geraghty:** But are you talking about a section in the Electricity Act that has changed?

**Mr. Peter Tabuns:** No, I'm talking about the Business Corporations Act.

**Ms. Sharon Geraghty:** Can you repeat the question, then?

**Mr. Peter Tabuns:** Hydro One has been exempted from section 42—

**Ms. Sharon Geraghty:** Where is that exemption? I just wanted to refresh my memory on the exemption you're talking about.

**Mr. Peter Tabuns:** I believe it was in the budget act that was passed. Hydro has got the power to decide for itself who may buy or trade Hydro One shares.

**Ms. Sharon Geraghty:** What you just said is true. Hydro One will be a public company, so its shares will be traded publicly. I'm not sure exactly what you're

referring to, but the fact that there is no restriction on the trading of shares, other than the restrictions that the deputy mentioned—

**Mr. Peter Tabuns:** No, it can decide for itself who can or can't buy shares.

**Mr. Serge Imbrogno:** That was part of the Electricity Act.

**Ms. Sharon Geraghty:** Right, but I think it's being articulated in a way that I'm not following—and I'm sorry, to the member. I'm just having trouble following the question, because it's not being articulated in a way that I recall.

**Mr. Peter Tabuns:** Right.

**Ms. Sharon Geraghty:** But I can refresh my memory.

**Mr. Peter Tabuns:** Why did the ministry—

**Hon. Bob Chiarelli:** Can we check the sections and the technical issues and get back to you tomorrow on that?

**Mr. Peter Tabuns:** Yes. I'll take it for tomorrow.

**The Chair (Ms. Cheri DiNovo):** We're not meeting tomorrow, but the next day—

**Hon. Bob Chiarelli:** The next session.

**Mr. Peter Tabuns:** Our next session, yes.

In an instance where the Hydro One board was going down a track that was particularly problematic for Ontario, not for a particular government—

**Hon. Bob Chiarelli:** Sorry, I didn't hear the first few words of your question.

**Mr. Peter Tabuns:** If the Hydro One board was going down a line of action that was particularly problematic for Ontario, the only remedy that you would have would be to essentially dismiss the whole board. There is nothing below that option.

**Ms. Sharon Geraghty:** There are some steps that the board takes that require shareholder approval. In those cases, the province is free to vote its shares however it wishes in its own self-interest on those matters—

**Mr. Peter Tabuns:** But it will have 40%, not 100%.

**Ms. Sharon Geraghty:** There are two issues there. One is that on fundamental transactions—an amalgamation of the company, an amendment of its articles—those require approval of two thirds of the shares voting in a meeting, so a 40% interest would be sufficient to block that—

**Mr. Peter Tabuns:** In those matters, yes.

**Ms. Sharon Geraghty:** Yes. With respect to other matters that require a majority, it is a majority of the shares that are represented at a meeting. Certainly, immediately after the offering—

**The Chair (Ms. Cheri DiNovo):** I'm sorry, Ms. Geraghty, we'll have to leave it there. That's the end of this section.

We move now to the government side.

**Hon. Bob Chiarelli:** We'll finish the answer to you on that, Peter.

**Mr. Peter Tabuns:** Okay. Thank you, Minister.

**The Chair (Ms. Cheri DiNovo):** Mr. Ballard.

**Mr. Chris Ballard:** Thank you, Minister. It has been a fascinating few hours, listening to questions and your in-

depth explanation. This is obviously an exceptionally important issue for the residents of Ontario and businesses in Ontario. I'm delighted to have heard your discourse today and how thorough it is in explaining the thought process and the work that has gone into a lot of this.

I go back to my experiences as a resident living in Aurora. Many years ago, we had our own small utility, our own distribution company, the much beloved Aurora Hydro, and it seemed that on a weekly basis, our power would go out. We were forever resetting all of those electronic devices that require constant electricity, so the microwave was forever blinking, and it became quite frustrating.

There came a time when we looked at the capitalization of our local hydro company and said, "We can't afford the upgrades that are necessary. We can't afford what needs to be done." Thankfully, PowerStream came along at about that time, as it was getting up and getting going, and made a very generous offer and also made a very strong commitment to improve the distribution system within the town. I think maybe, when they actually closed the deal and came in and had a really close look at what was happening, they may have regretted it, but perhaps not.

I know that residents are much happier after that merger. Our electrical supply now comes from two or three different lines coming into town instead of one. As a town councillor, I heard from businesses consistently that they were going to have to move because power was dirty and it was variable. That all went away and they're now happy.

So I certainly understand the importance, on a small scale, perhaps—only one system—of the need to capitalize and the need to run a distribution system as efficiently and as effectively as possible, and how much better it has been for my town—one of two in my riding of Newmarket–Aurora—to work with a company that has the capital and the expertise to put a good distribution system in play.

In talking with people in Newmarket–Aurora, I've had people ask me about the proposed sale, the broadening of ownership. It's interesting, and it's a bit disconcerting, in some ways, that people have been either misinformed or haven't had the ability to bone up on what exactly Hydro One is. That's one of the questions I have for you. People are concerned that we're selling our nuclear generation stations, for example, or we're selling Adam Beck, or we're selling these big transmission lines that we've recently purchased. When they really understand what Hydro One is, they're much more comfortable. In Newmarket–Aurora, we have Newmarket–Tay hydro serving the north end, we have PowerStream serving the south end, and they better understand what this is all about.

Then there are some concerns about why some people are going around and misinforming them about the impact of this. I think it's so important that we discuss what exactly Hydro One is in its entirety. Not many

people are going to read this, but it's a good start for those of us here.

The other part of what I wanted to talk about is, I know that last year, when we enjoyed your company for 15 hours, I think it was—it seems like just yesterday—I made mention of this, but I spent a good part of my career working in the consumer advocacy world, with the Consumers' Association of Canada and the Consumers Council of Canada. I worked with people at Public Interest Advocacy. Those groups appear before the OEB, right? We were quite familiar with the Ontario Energy Board process. We won some and we lost some, but we really had a good understanding of what goes on there, and the power of the mandate, and the strengths, of the Ontario Energy Board.

I think that's one of the misconceptions that is being spread, quite frankly, about what the OEB can do, what its responsibility is going to be, and the fact that Hydro One will not be the organization, just like PowerStream in Aurora and Newmarket-Tay hydro in Newmarket are not the organizations that set my rate as a consumer. This has to go through a very rigorous process at the OEB, and there are consumer advocates who are there, with professional counsel and professional input, making informed input into that process and really advocating on behalf of consumers. On the board itself, there are people with real expertise when it comes to advocating on behalf of consumers. That has raised my comfort level, to see some of the people who have been put on the board.

**1720**

I guess, Minister, to get to the point—first, just a bit more of an explanation about this beast called Hydro One and what it is. Once again, can we go on the record, if you could, and explain the strengths of the Ontario Energy Board's mandate and how it works in the interests of all Ontarians?

**Hon. Bob Chiarelli:** Thank you for the question. It's information that would be extremely helpful for people who are following the Hydro One broadening of ownership closely. Some of my comments now will cover some of the points that I mentioned before, but I'm trying to put it in a new context.

Of course, the OEB is an independent regulator, with a mandate to protect the interests of Ontario ratepayers. It's legislated to do so, and it has the power and the authority to do that and it exercises that power. It exercises that power responsibly, with public hearings where stakeholders can come. Consumer advocates are always present at hearings at the Ontario Energy Board.

*Interjections.*

**The Chair (Ms. Cheri DiNovo):** Excuse me, Minister. I'm going to have to ask the official opposition, please, if you are going to have a conversation, have it outside.

**Hon. Bob Chiarelli:** It's important, as well, to keep in mind the breadth of their mandate. The Ontario Energy Board, among other powers that it has, regulates the rates for crown corporations, like Ontario Power Generation,

or OPG; privately held companies like Union Gas and Enbridge; companies like Hydro One, which is in transition—right now it's like a crown agency, if you will, incidentally, with only 24% of the business of delivering electricity in the province of Ontario, both now and in the future, in its new form—they are not free to set their own rates. The OEB makes the final determination on rate applications.

There are a number of examples, and I've referred to some of them, in which the OEB has denied the rate increases requested by utilities or local distribution companies like Toronto Hydro, or PowerStream, or Hydro Ottawa, or the Renfrew energy corporation. I've listed a number of them. Their requests to have increases are regularly modified, reduced, or in fact decreased, on occasion by the Ontario Energy Board.

They look at data that is provided. If, for example, Hydro Ottawa is applying for an increase, or Hydro One is applying for an increase, they have to justify the increase: Did they really need to spend that money to build that transformer; was it reasonable to increase wages by that much, or executive compensation or pension plans that much etc?

They analyze all of that and if they're not reasonable, in the opinion of very, very expert people on that board, then the request is reduced, or decreased, in fact, on some occasions. I went through occasions in the recent history where they reduced Hydro One on a number of occasions; Ontario Power Generation on a number of occasions; Toronto Hydro, for example. They are there, they are part of the record. For someone to say that because the province is giving up some ownership of Hydro One that they're going to be free to raise their rates to whatever level they want is absolutely untrue and in fact impossible because before they get one dollar of increase, they have to go through that process and it has to be rated and it will not be approved.

When appearing before the Standing Committee of Finance and Economic Affairs, the CEO of the Ontario Energy Board, Rosemarie Leclair, stated that the OEB "public hearing process is rigorous and requires utilities to provide comprehensive ... business plans.... Proposals are examined and challenged in an open, public and transparent process, which includes the active participation of ratepayer representatives as well as other stakeholders. In fact, the OEB is one of few energy regulators that provide significant funding to ensure that the voices of those impacted by our decisions are represented effectively in our proceedings."

Again, just last Friday, the Supreme Court of Canada upheld the right of the Ontario Energy Board to ensure consumers pay just and reasonable rates for electricity, even if that means challenging a utility on expenditures like collective bargaining labour agreements.

In this recent decision, the Supreme Court ruled on a long-standing dispute that began after the energy board determined that Ontario Power Generation's labour costs were too high. The OEB disallowed the full payment amount requested as part of its rate application covering

2011 and 2012. It has been working its way through the courts since then.

This ruling applies to Hydro One now, and it applies to Hydro One after the IPO in terms of the type of authority and power exercised, and protection for the public exercised by the Ontario Energy Board. The Supreme Court decision supports the energy board's assertion that it was not constrained—and cannot be stopped in its belief—in its review of labour costs because it has the duty to look out for ratepayers, and it cannot allow ratepayer interests to be subordinated to the interests of unionized employees.

The OEB has a powerful mandate to protect the interests of ratepayers and to set just and reasonable rates. There's no way that Hydro One now or Hydro One under its new board and new management will be able to skyrocket rates. It will be slapped down, just like the other examples, if it's out of line. That's the bottom line.

**The Chair (Ms. Cheri DiNovo):** Mr. Ballard?

**Mr. Bob Delaney:** How much time have we got left, Chair?

**The Chair (Ms. Cheri DiNovo):** We have about seven minutes.

*Interjections.*

**The Chair (Ms. Cheri DiNovo):** Mr. Crack?

**Mr. Grant Crack:** Thank you very much, Madam Chair. I'm just so excited to be reading the long-term energy plan again for the third or fourth time. One of the things, Minister, that interests me is the interprovincial trade of power between the provinces, specifically to Quebec, which is important to me, having the eastern-most riding in the province of Ontario, which borders on Quebec. I know that in the past, I've had a number of discussions with constituents, as well as perhaps during the election in 2014, where I had to set the record straight on a number of occasions as to statements that had been made concerning the importing and exporting of hydro.

You had mentioned previously in your opening remarks the seasonal differences between Quebec and Ontario and the fact that in the winter, Quebec's demand is higher and, as such, some energy from Ontario flows and it's reversed. This has been a normal part of the operations of supplying electricity into and out of Ontario for a number of years.

You had also made reference to a report that you're working on and/or has been completed. I'm just wondering what the next steps are, there, with the discussions with Quebec. You've made reference in the House of some discussions with Quebec. I know our relationship with Quebec is much improved. We've got two great Premiers in both of the provinces who are like-minded and know what it takes to work together in order to build stronger provinces. Maybe just comment on that report, Minister?

**Hon. Bob Chiarelli:** Yes, I'd be happy to do that. There has been a lot of discussion about it. We hear a lot of people saying, "Why don't you just buy cheap Quebec hydro?" We actually had, in our December 2013 long-term energy plan—we committed to pursuing clean

import agreements where they're cost effective and can benefit our system.

**1730**

Now just to be clear, historically, Ontario and Quebec are already significant electricity trading partners. In 2014, Ontario imported 3.6 terawatt hours of electricity from Quebec, which is enough to power a city the size of London for a year. Quebec also imported 3.5 terawatt hours from Ontario, which is enough to power a city the size of Longueuil for a year.

We have also signed an unprecedented agreement with Quebec to exchange 500 megawatts of electricity capacity to help each province keep power affordable and reliable. The seasonal capacity exchange, which is what we're referring to, represents a cost-effective alternative to building new generation for both provinces. So the agreement that is in place, the operational starting in a couple of months for Quebec, is that because we are in a surplus situation, we'll be providing power to Quebec at our cost during the winter. They will be providing power to us at their cost in the summer when we have our peak. That's the nature of the agreement, and the infrastructure—

**The Chair (Ms. Cheri DiNovo):** Minister, just a two and a half minute warning.

**Hon. Bob Chiarelli:** Sorry?

**The Chair (Ms. Cheri DiNovo):** Two and a half minutes.

**Hon. Bob Chiarelli:** Half a minute?

**The Chair (Ms. Cheri DiNovo):** Two and a half.

**Hon. Bob Chiarelli:** Good.

The infrastructure or the intertie or the interprovincial transmission enables us to do 500 megawatts of that in terms of exchange. It represents a saving by getting electricity at cost for both provinces. So it's a win-win situation.

The report you talked about, the IESO intertie report—we asked for a report from the IESO to look at all the potential aspects of interprovincial energy trading, the benefits that these partnerships with our neighbours are providing to Ontario in terms of providing flexibility, reliability and reducing costs. The report identifies opportunities to enhance the benefits of existing interties—without new infrastructure, in other words—as well as the technical and cost constraints that limit the amount of power Ontario could import.

As minister, I am working with my counterparts in Quebec and Manitoba—we're looking at both provinces—to explore the opportunities to enhance the benefits of our existing interties as recommended in the report.

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 system reliability and affordability. That is particularly for the refurbishment period for our nuclear units when some of those units will go down. We're looking at the possibility of importing clean, non-emitting electricity from Quebec during that time, and it's on the premise

that it has to be less costly or less expensive than we could generate in Ontario ourselves. So it's a win-win for us.

We're just about out of time. Perhaps we can continue this when we have additional time.

**The Chair (Ms. Cheri DiNovo):** Thank you, Minister.

**Mr. Grant Crack:** That would be great. Thank you, Minister.

**The Chair (Ms. Cheri DiNovo):** Now back to the official opposition, Mr. Yakabuski.

**Mr. John Yakabuski:** Thank you very much. Yes, that's such a good deal. Thank you very much, Minister, for appearing before estimates. I know you're very busy and I appreciate all the time that you do give us.

**Hon. Bob Chiarelli:** I like the intimate relationship.

**Mr. John Yakabuski:** It's as meaningful to me as it is to you.

I'm glad you're talking about all that great deal you're getting from Quebec because in June alone we gave away \$225-million worth of electricity to various jurisdictions, your so-called surplus that we keep handing away or paying people to take and getting little back and reciprocating on the other end when we need it. When you're working from a disadvantage, nobody's going to give you the best deal and we haven't been able to do that for some time under your government.

I want to talk about the OEB because you seem to go on and on and on about this wonderful Ontario Energy Board that seems to—I've got this picture in my mind of how these big, bad energy companies come in when they want money. They want new rates and they want increases, and the white knight of the OEB just comes in and says, "No, no, you can't do that."

The OEB was in existence—just a short—I don't even need an answer—when you guys came to power in 2003, right? Yes, of course it was. It was brought in by a previous Conservative government. We didn't make the recent appointments. So, all through those 12 years, where we've seen energy rates triple, where was the white knight every time somebody would be looking for an increase?

You see, the minister seems to indicate that somehow the Ontario Energy Board is out there protecting us, but he only wants to tell half of the story. When government policy—such as your policy on renewables in the Green Energy Act—drives up costs, the OEB has no option. If the entity can prove that they have real costs being foisted onto them, and they can justify those increases, then those increases are granted. The minister talks like they rolled back this increase and rolled back that increase. Well, the reality is that it's a bit of a negotiation.

When someone goes to the Ontario Energy Board, and they want a 4% increase, you can rest assured they're looking for 6%, because at the end of the day everybody walks away, and the minister has a nice little press release saying, "The OEB did its job once again. Them buggers wanted 6%, but the OEB said no. The people of Ontario have been protected because we have the OEB in

place, and they only got 4%." It's all a game. That's what's going on here today, talking about the OEB. It's just a little game that's going on. The reality is, whether Hydro One is in your hands or in private hands or sold out in shares, the OEB is going to be faced with the same issues. When the policy decisions of your government drive up the cost of energy to consumers, the OEB will have no option but to grant those rate increases as those requests are made.

I think you need to be clear on that, Minister. You've got to stop pretending that somehow, the consumer out there is going to have this kind of protection. It hasn't existed for 12 years. Rates have tripled. They were 4.3 cents a kilowatt hour when your government came to power. Now, granted, you weren't there; I can't hold you responsible—I never do—but your government is. It was 4.3 cents a kilowatt hour for the cost of electricity; it has over tripled at the peak. So where was the OEB? The OEB must have been sleeping, or it's not doing the kind of job that you claim it has been doing. So I want to make that very, very clear: that the OEB has to work with what is placed before it. It doesn't just somehow go out there and say, "No, no, no."

In fact, those decreases—the gas companies requested decreases because the price has changed. A couple of winters ago, we had a terrible winter, and the supply of gas was very, very scarce. They had to request significant increases so that they could continue to function, operate and deliver the gas. But now that the gas price has dropped, they've also realized that they need to roll back those prices. They've gone to the Ontario Energy Board and said, "This is what we can sell gas for." The Ontario Energy Board says, "Yes, you can sell it at the reduced rate." The Ontario Energy Board doesn't work in a vacuum; it works in the world that you deliver it. When I say "you," I mean that your government delivers a lot of it based on policy—not necessarily on natural gas, because that's a commodity that is not controlled by provincial government on pricing.

Let's move on a little bit to Hydro One. On one hand, you say that it's going to be an independent board that is going to make these decisions when you're talking about protecting jobs in Ontario versus offshore. You say it's an independent board, but then in your speech this morning you were talking about how you're going to continue to have control of Hydro One because you're going to retain 40% of it. You can't have it both ways. You can't have control and then say, no, it's the independent board that is responsible for everything. You can't talk out of both sides when you're talking about what's going to happen at Hydro One.

**1740**

But I want to talk about Mayo Schmidt. I heard, when you released the prospectus, that Mayo Schmidt was going to have a salary of 800-and-some-odd thousand dollars—I don't have the figure written down in front of me—but the potential to earn \$4 million because of bonuses. You were quoted as saying something to the effect, and I'll paraphrase, "Oh, but it's not going to be easy to get that \$4 million."

Now we're getting to a question, so you're going to get a chance here. Can you tell me—if you can't talk about his contract, then I don't need the question answered. But I'd like to know what Mayo Schmidt actually has to do, other than show up for work and make sure that he is presentable and does the odd news conference—what performance requirements are in place for Mayo Schmidt to earn \$4 million as a salary at OPG?

**Hon. Bob Chiarelli:** At this particular point in time, my understanding is that the base salary and the targets to create the possibility of achieving up to \$4 million—my understanding from the board is that they're looking at three specific areas which will form the incentive to move forward. That includes employee safety—they have to have very, very good safety, and protect their employees; customer service, whether it's billing, whether it's the linemen getting out to do repairs etc., which is very, very important; and the financial performance of the company as well. Those will be the parameters under which his bonuses, his incentives, will be judged.

**Mr. John Yakabuski:** I worked for Ontario Hydro. You probably don't know that. But it was one of the key—

**Mr. Grant Crack:** You should have stayed there.

**Mr. John Yakabuski:** Well, I'll tell you, there are some people I wouldn't have to put up with across the way here, if I did.

Safety was priority number one. So we're going to actually pay the CEO of Hydro One, or whatever we call him—the president, the grand pooh-bah or whatever—we're going to pay him for achieving something that has been a priority of Hydro One since it was Ontario Hydro. Safety is priority number one.

I worked at the Nanticoke generating station, and I'll tell you, safety was paramount. We're going to actually pay this guy a bonus for doing something that they did by rote, by nature, since this company's inception. I mean, that doesn't sound like too hard of a hill to climb.

If that's the case—you see, Mayo Schmidt was making that kind of money before.

**Interjection:** More.

**Mr. John Yakabuski:** More? Thank you very much. That even makes it better. He was making more.

**Hon. Bob Chiarelli:** He took a pay cut to come.

**Mr. John Yakabuski:** He's taking a pay cut. Do you think he's going to take a pay cut to the extent that he's going to make \$800,000 and then have to struggle and strive to get \$4 million?

**Hon. Bob Chiarelli:** He took a pay cut from the \$4 million.

**Mr. John Yakabuski:** I don't know Mayo Schmidt, but I guarantee you one thing: He's pretty smart, and he's smart enough to make sure he signs a contract that ain't going to be taking him—so he's already taking a pay cut at \$4 million. He ain't going to be taking a pay cut.

“Ain't” is a legal word now, isn't it? It's in the dictionary.

**Interjection:** “He's not.”

**Mr. John Yakabuski:** He's not going to be taking a pay cut.

**Hon. Bob Chiarelli:** You learned that language at Nanticoke.

**Mr. John Yakabuski:** He's not going to be taking a pay cut that takes him to lower than \$4 million. You can rest assured of that.

I think you've got to stop with that rhetoric about trying to pretend that Mayo Schmidt's getting 800-and-some thousand dollars and he's got to work his sweet butt off to get to \$4 million. This guy's making \$4 million, so I think that should be the starting point. From here on in, let's talk about Mayo Schmidt at \$4 million, and we'll see what his next contract's going to be.

How long is this contract with Mayo Schmidt? Can you tell me that?

**Hon. Bob Chiarelli:** I don't recall offhand. Is it in the prospectus?

**Mr. John Yakabuski:** A week? Two weeks? Pro-rated on a year?

*Interjections.*

**Mr. John Yakabuski:** How long is it?

**Hon. Bob Chiarelli:** I think it actually may be renewed every year.

**Mr. John Yakabuski:** Oh. So \$4 million this year. “If you're happy, Mayo, would you take \$6 million next year?” Is that what it's going to be? Because this guy didn't come here to run this corporation and to not better himself. So we've got to stop with that rhetoric about him having to earn \$4 million. He's getting \$4 million and you know it. Is that not a fair statement?

Look at the bonus pool they had for the Pan Am guys. They had nothing to do with that. The athletes made the success. The minister keeps raising the bar—or lowering the bar, I guess, would be the proper way—lowering the bar with respect to meeting the budget targets. Then everybody's happy, and we're paying out—what is it, \$26 million or something?

**Mr. Todd Smith:** It's \$5.7 million.

**Mr. John Yakabuski:** Oh, okay—\$5.7 million in bonuses. Saad Rafi, who came on late in the game, is going to double his salary. He retires from the Ontario public service and gets a gigantic pension, and now he gets a nice gig with the Pan Am Games and he's going to double that salary, all for a few months' work.

This is what we're up against here in the province of Ontario, and this is what we're afraid of: that this is what it's going to be like with the new board, with the new Hydro One. You say the independent board is going to look after it, but how much input did you have in deciding the salary of Mayo Schmidt? Because you own all of Hydro One today. Was that your decision, this pay package?

**Hon. Bob Chiarelli:** The decision was decided by the new board.

**Mr. John Yakabuski:** The new board.

**Hon. Bob Chiarelli:** Yes.

**Mr. John Yakabuski:** And you had no input on it?

**Hon. Bob Chiarelli:** No, I had no input on it.



**Mr. John Yakabuski:** No input on it whatsoever?

**Hon. Bob Chiarelli:** No.

**Mr. John Yakabuski:** They didn't even consult with you?

**Hon. Bob Chiarelli:** I didn't want to be consulted, because they're transitioning into being an independent board for a CEO who's going to be functioning under that particular board of directors. So that decision was made by the board.

**Mr. John Yakabuski:** But as the minister and the sole shareholder, when you wrote that directive to—was it Carmine Marcello who you wrote that directive to? You would still be able to write a directive to the board and say, "Hey, whoa—\$4 million? That's ridiculous."

**Hon. Bob Chiarelli:** The contract was made with the board in contemplation of working with the IPO board in the future, under the new structure of Hydro One.

**Mr. John Yakabuski:** But as the minister, you could have said no, correct? You could have said, "That's not acceptable to the people of Ontario. That's not acceptable to the overburdened ratepayers of Hydro One across this province. That's not acceptable to the grandmother who can't pay her hydro bills in the wintertime because she's got electric heat. That's just not acceptable." You could have said that, could you not have?

**Hon. Bob Chiarelli:** Well, in the process of transitioning from a crown corporation to a private board, it was not appropriate to intervene—

**Mr. John Yakabuski:** Could you have?

**Hon. Bob Chiarelli:** It was not appropriate to intervene in the transition.

**Mr. John Yakabuski:** I understand your opinion and your view on that, and maybe the lawyer wants to step in as well—but could you have?

**Hon. Bob Chiarelli:** I've answered the question.

**Mr. John Yakabuski:** No. The question is, could you have?

**Hon. Bob Chiarelli:** I answered the question. It would not have been appropriate under the circumstances of transition.

**Mr. John Yakabuski:** I understand that, but no, the question is more direct. I want to know: Do you have the power, the ministerial power? Could you have stepped in?

**Hon. Bob Chiarelli:** It would have been totally impractical under the circumstances.

**Mr. John Yakabuski:** Okay. We're not getting an answer on that.

Then let's talk about Carmine Marcello as well. Carmine Marcello basically ran Hydro One when it was the subject of the largest and most significant investigation in the history of the Ontario Ombudsman—the largest file with regard to customer complaints. What does Carmine Marcello get out of that? He gets hired on as a special adviser. Is his category of special advising going to be customer service? What is it going to be? Because he sure was an expert at that. But he's getting paid over half a million dollars as well. When Carmine Marcello turns 65, he's going to be eligible for a pension

of about \$450,000 a year. Is that the reward we give someone for the mess that was made at Hydro One over the last few years? Apparently, the OEB protects us from rates, but who protects us from obscene payouts? Could you have stopped Carmine Marcello from getting that money?

**Hon. Bob Chiarelli:** My understanding of his role is that it's transitional and that it will end on December 31.

**Mr. John Yakabuski:** Of this year?

**Hon. Bob Chiarelli:** Yes.

**Mr. John Yakabuski:** Of this year?

**Hon. Bob Chiarelli:** Yes.

**Mr. John Yakabuski:** So is he getting \$500,000-plus-whatever per annum? Or is it until December 31 of this year?

**Hon. Bob Chiarelli:** I don't have that number.

I don't know if you have it, Deputy.

**Mr. Serge Imbrogno:** I don't think we have those details.

**Mr. John Yakabuski:** Do you not think it would be important to the people of Ontario, and wouldn't it be important to you, the deputy minister of energy, to know what we're actually going to pay the guy?

**Mr. Serge Imbrogno:** I don't have all the contract details. I don't want to give you an answer that might not be correct, with the details—

**Mr. John Yakabuski:** Well, that's a change.

**Mr. Serge Imbrogno:** It will all be disclosed. But I think the minister has given you the sense that he's there for a transition period to provide support, and I think it's up to the board to—

**Mr. John Yakabuski:** Could we get that information? I'm specifically asking, then, on behalf of the members of the committee, to find out how long Carmine Marcello will have to work to be paid that 500,000-and-some-odd dollars—I don't have the exact figure. Could we get that? Is it legal for us to get that? It should be publicly disclosed. One thing the minister said in the House was that all of these salaries will be publicly disclosed under the Ontario securities legislation.

**Mr. Serge Imbrogno:** Whatever is disclosed now in the prospectus is what's publicly available—

**The Chair (Ms. Cheri DiNovo):** Mr. Yakabuski, you have just over two minutes left.

**Mr. John Yakabuski:** Is there something wrong with the clock? Do I need to make a motion for that, Chair?

**The Chair (Ms. Cheri DiNovo):** For what?

**Mr. John Yakabuski:** To get that information. I don't know.

**The Chair (Ms. Cheri DiNovo):** My understanding is that you can request information from a minister. You don't have to make a motion to get information—

**Mr. John Yakabuski:** Okay. I'm requesting that information: some clarity on the contract of Carmine Marcello. If he's only on until December 31 of this year—I mean, Mayo Schmidt was only hired in the last couple of weeks. So if it's \$500,000, that's for three or four months?

**Hon. Bob Chiarelli:** I defer to what's in the prospectus. I think it's referred to in the prospectus.

With respect to providing information, if it's the will of the committee—the committee can decide what—

**Mr. John Yakabuski:** I would request clarity on that figure, because I think it's important for the people of Ontario to know exactly what they're paying for Mr. Marcello in this advisory capacity.

**Hon. Bob Chiarelli:** On page 141 of the prospectus, footnote number 9: “Mr. Marcello will receive payment on December 31, 2015, for an amount equivalent to six months of his base salary plus 50% of his short-term incentive payment for 2014 with respect to his provision of continuity services to the chief executive officer”—that's basically the transition—“and to the chair of the board, provided he continues to devote his full time and attention to his responsibilities at Hydro One to such date.”

**Mr. John Yakabuski:** So he's getting that—

**Hon. Bob Chiarelli:** That's the amount of information I can provide.

**Mr. John Yakabuski:** That explains it; I appreciate that. So he's going to get that money for working until December 31.

**Hon. Bob Chiarelli:** Yes.

**Mr. John Yakabuski:** Wow. Not a bad gig if you can get it. Well, that's pretty scary.

**Hon. Bob Chiarelli:** He has been working since the beginning of the year.

**Mr. John Yakabuski:** Oh, yes, he was really doing a good job. Just ask Mr. Marin on that.

You know what, Chair? I think I have no further questions, because it would require more than a few seconds to answer them at this point. I'll come back later.

**The Chair (Ms. Cheri DiNovo):** Thank you, Mr. Yakabuski.

**Hon. Bob Chiarelli:** A few minutes to ask them too.

**The Chair (Ms. Cheri DiNovo):** This committee, then, stands adjourned until next Tuesday at 9 a.m. See you then.

*The committee adjourned at 1753.*



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