



Deregulation, Privatization and The Ontario Power Failure

On August 14, 2003, there was a huge blackout across the American northeast and almost every inch of Ontario - the largest blackout in North American history affecting about 50 million people in total.

The United States and Canadian governments have established a bi-national task force to examine the problem and make recommendations to ensure this type of incident does not happen again. CUPE calls on the Canadian government to hold public hearings as part of this process.

In this paper, CUPE looks at the history of deregulation in the U.S., focusing on the California crisis and the collapse of energy giant, Enron, as proof of the failure of market experiments in electricity. Looking at the recent blackout, there are early indications of the same mentality at work – a higher regard for profit and power than the safety of the public.

Canadian attempts to deregulate and privatize electricity are documented with a focus on Ontario and British Columbia, but also looking at Alberta and New Brunswick.

The need for public investment in the electricity system is greater than ever and the paper examines the example of the myths surrounding Ontario Hydro's debt and how the Ontario public is paying for the "price cap" in that province. Clearly, greater Canadian electricity cooperation and less dependency on the U.S. is a preferable solution. Public power systems in Manitoba and Quebec are examples of self-reliance and an improved east-west Canadian grid makes sense in an era of volatile deregulated systems.

A final section looks at lessons learned from the August 14 blackout and CUPE has many recommendations on how to strengthen the Canadian electricity system. CUPE members can be proud of the historic struggles waged to protect public power. The fight has to continue against corporations who want to turn the right to electricity by lining their own pockets with profits made from market-based electricity. Our governments must be held accountable as we continue this struggle for publicly owned and operated electricity.

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Introduction

In the aftermath of this disaster, it is clear that whatever tripped the electricity system in the northeastern U.S. and Ontario, and began the cascade of power shutdowns throughout the region, privatization and deregulation of power are the root causes. Every province and territory is vulnerable and none of us can be complacent as we watch this power surge spread north from the heart of deregulated America.

David Freeman has run five public power authorities, including the Tennessee Valley Authority and the L.A. Department of Water and Power. In April 2001 he became the state energy advisor to California Governor, Gray Davis. Here is what he said after the electricity debacle in California:

“Something like electricity, that cannot be stored and is the oxygen of modern civilization, cannot be allowed to fluctuate up and down in price and in reliability and availability under a free market”. (1)

In an article written in April, 2003, journalist Greg Palast also wrote:

“Markets for electricity don’t work and can’t work. Electricity is not a bagel - that is, unlike your morning muffin, you can’t do without it when it gets too pricey.” (2)

In this paper, we will address the following:

- How did we get here? Lessons from recent history – why deregulation and privatization have failed to provide many of us with a safe, reliable, affordable and adequate supply of this “oxygen of civilization”
- The need for public investment in the electricity system and how to find the money
- The need for self-reliance within Canada; the need for integration between provinces rather than continental integration with the United States
- Why we must have publicly owned and publicly controlled electricity
- Why electricity must be viewed as a human right
- Why we must use this opportunity to foster growth in renewable energy sources
- Why we must work to restore democratic control of our own resources and within our own communities

- How CUPE members and other unionized workers are key to the future of public power in this country
- What we can do as a union to step up the fight against privatization and deregulation of our power

Lessons from History

Canada's electricity system, unlike the U.S, has been almost entirely publicly owned and operated since the beginning of the 20th century. Adam Beck, a very different Ontario Tory than those in power today, campaigned for "Public Power at cost" in 1906 and gained overwhelming popular support. In towns and cities across Ontario, the people voted in a referendum to keep their power in public hands and not in the hands of the profit-seeking power barons.

Why is public power so important? In Adam Beck's time, as today, it was crucial to keep electricity in public hands. Then, as now, there were critical questions to decide on, for example, how much electrical capacity do we need to build? Profit-seeking power producers naturally want to keep the supply/demand balance in their favour. They want to sell electricity at the highest prices; they do not have any interest in lowering the cost of power to benefit customers. If, on the other hand, the customers of a utility are also its shareholders, there is no conflict of interest. In a publicly owned system, any "profits" stay in the system and can be used to keep rates affordable, pay off debt, maintain reliability and promote economic development. In a privately-owned system, power shortages are good for shareholders because they mean higher prices and therefore, higher profits.

What Happened in the U.S. Historically?

In contrast to Canada, in the United States today, public power only provides 25% of all electricity consumed (about 74 million people) although it is actually gaining strength at present. As a comparison, public power provides approximately 80% of all electricity consumed in Canada.

Although there were some successful municipal public power campaigns throughout the U.S. in the early decades of the 1900s, the vast majority had their power delivered by private power developers. Thomas Edison's early utility, Edison General Electric, established many utilities especially in the northern half of the country.

By 1921, privately owned utilities provided 94 per cent of total generation and by the late 1920s, the 16 largest electric power holding companies controlled over 75 per cent of U.S. generation. One of the strongest companies was owned by power baron, Samuel Insull. When his empire collapsed in 1932, thousands of shareholders lost billions (not unlike the Enron collapse seven decades later) and Insull became a symbol of the corruption and fraud that marked the Great Depression.

In 1932, this made it easier for Franklin Roosevelt to create federally owned utilities such as the Tennessee Valley Authority (TVA), and Bonneville Power Administration, massive public works projects which have thrived to this day, surviving even Ronald

Reagan's "government is the problem" obsession.

In 1933, soon after the Democrats, under Roosevelt, swept to power, the government set up the Federal Power Commission and the *Public Utilities Holding Company Act*, which controlled and regulated electricity companies in the U.S. He also banned any political contributions from utility companies. The Federal Power Commission was also set up to regulate utilities involved in interstate wholesale marketing or transmission of electric power. (This later evolved into the Federal Energy Regulatory Commission – FERC).

The public became used to the provision of cheap and reliable power in the years following. From 1933 to 1941, public power continued to grow until it represented 12 per cent of all power generation, double what it was 20 years before. Since then, it has doubled again so that public power now represents 25 per cent of all U.S. utility generation. **(3)**

In 1990, it was an Enron company (Houston Natural Gas, Texas) which convinced British Prime Minister Margaret Thatcher, to license the first completely deregulated power plant in the hemisphere, located within the United Kingdom.

In 1992 President George Bush (Senior) gave the power industry what it wanted: federal deregulation of electricity. *The Energy Policy Act*, 1992, opened up the vast U.S. transmission network to all generators. It was to set the stage for deregulation of the electricity industry throughout the U.S. where electricity industry control was taken from state regulators and therefore public accountability as well.

In 1998, power companies spent \$39 million to defeat a 1998 referendum pushed by Ralph Nader, which would have blocked a deregulation act in the state of California.

Between May and November 2000, three power giants "physically or economically withheld power from the state and concocted enough false bids to cost California customers over \$6.2 billion in excess charges". **(4)**

In December 2000, President Bill Clinton, imposed price caps in California and banned Enron from the market.

Within 72 hours of his election in 2000, George W. Bush reversed Clinton's order and opened the gates to the power companies once again.

So it was that on the first hot day of summer after deregulation, a small group of plant owners held California's power system hostage, named their prices, and the bidding began in the auction for electricity. California power companies created false power shortages 98% of the time in order to reel in profits (an estimated \$6.2 billion in a single year). **(5)**

Throughout all of this, Enron, a huge corporation involved in energy trading and distribution (seventh largest in the U.S., sixteenth largest in the world), had thousands of offshore partnerships, an accounting mess, and hid over \$1 billion in debt. Enron's subsequent bankruptcy was the largest collapse in corporate history. Top management walked off with hundreds of millions of dollars, thousands of employees lost their jobs, investors lost millions and customers were left with rolling blackouts. Since all of this has come to light, George Bush has consistently tried to deny his close connections to Ken Lay, CEO of Enron.

The fallout from Enron's collapse should have taught us a lesson regarding privatization and deregulation. Although it is the biggest corporate energy giant to be caught so far, it is not the only culprit.

Enron did, however, represent one of the most powerful companies pushing for new global trade rules through the World Trade Organization (WTO), especially the General Agreement on Trade in Services (GATS). The current GATS negotiations are all about expanding the rules to include virtually all services, ranging from health care and education to energy, water, financial, accounting and transportation services. Trade agreements like the GATS are simply mechanisms for further corporate exploitation of people, land, resources and public services. As a CUPE delegate to an International Seminar on the Electrical Industry in January, 2003, recognized:

“World investors are very excited about the profits they can make and are being very aggressive with governments to get favourable legislation. World investors have decided to take over energy and even though their primary interest is still oil, electricity has become a close second.” (6)

In recent years, New York, Massachusetts, Pennsylvania and Montana have all suffered huge price increases as a result of opening up electricity to market forces. In the United Kingdom, the market-driven solution failed miserably and now there are new attempts to overhaul the system and restore prices to a reasonable level for citizens.

The Recent Crisis

First Energy, Ohio, has been identified as the catalyst for the massive power blackout in northeastern United States and Ontario on August 14, 2003. This company has more than four million customers and now ranks as the fourth largest privately owned utility in the United States with annual revenues of \$12 billion. **(7)** Its safety record is abysmal and has been the subject of an attack in recent years by Ohio representative, Dennis Kucinich, now a Democratic presidential candidate. First Energy has been accused of cutting back workers who maintain its transmission lines and Kucinich filed a petition to shut its nuclear plant down after a series of violations, including “a hole the size of a football field in the top of the reactor vessel”. **(8)** Despite this record, the company was given a pass by regulators according to Kucinich.

First Energy has close ties to the Bush administration. Its president, Anthony Alexander, was a member of the Bush administration’s transition team when George Bush moved into the White House in 2001. The company gave \$1,044,807 in political donations in 2002 – 70% to the Republicans and 29% to the Democrats, and another \$2,259,975 was spent on lobbying in the same year.

Former First Energy senior manager and now consumer lawyer, Howard Whitcomb, sums it up:

*“The mentality of the First Energy senior management [is that] they place a higher regard for profit and power production than the safety of the public”. **(9)***

The other corporation implicated in the power shutdown of August 2003 was the Niagara Mohawk Power Company (NiMo), long part of the corporate power elite pushing for deregulation of electricity in the U.S. After various questionable activities involving NiMo, and links made between the corporation and New York Republican governor, George Pataki, suddenly NiMo was bought up by National Grid of England. They got rid of 800 workers and pocketed most of their wages, producing a bonus for NiMo stockholders of close to \$90 million.

In recent years, more than 160,000 North American workers have been cut from the electricity sector as it spiralled downward into the era of deregulation.

Canadian Attempts at Deregulation and Privatization

Ontario

In 1906 the Ontario government created the Ontario Hydro Electric Commission to build and operate a provincial transmission grid that would deliver power from privately owned hydro-electric generators on the Niagara River to various municipally-owned distribution systems in Southwestern Ontario. Abuses by the private monopolies confirmed that a public power industry was necessary.

From 1906 to 1926 Ontario Hydro constructed a province-wide transmission grid, acquired most of the privately owned generating facilities and built new ones.

Over the years, under public ownership, Ontario Hydro built an unrivalled electricity transmission network that delivered reliable and quality service and at the same time maintained a fair degree of rate equity. That is, the province instituted a “postage stamp” rate for equity between different classes of customers and regions throughout Ontario.

Ontario Hydro proved to be one of the most cost-efficient electric power producers in North America. However, in the 1970s and 80s Ontario became heavily dependent upon its nuclear generating capacity. It had built up a large surplus of very expensive nuclear capacity, and its reliability came into question when in the summer of 2002 fifty percent of it was out of commission. **(10)** The Ontario NDP government (1990 – 1995) halted all nuclear station development and at the same time instituted environmental initiatives to support their energy plan.

The Conservative Government Moves Ontario Closer to Privatization

The Tories, elected in 1995, have undertaken to privatize and deregulate Ontario Hydro’s system with disastrous results and several colossal u-turns. For the past eight years, however, Ontario has stopped investing in electricity supply and conservation programs begun by the NDP have been eliminated under the Tory government.

In 1997 the government issued its *White Paper—Directions for Change: Charting a Course for Competitive Electricity in Ontario*. In it the government promised an open wholesale and retail market by 2000 and the separation of Ontario Hydro into a single generation company as well as a transmission company.

By 1998 the government had introduced its *Energy Competition Act*. The Bill broke up Ontario Hydro into a generating company (later called Ontario Power Generation, a wires and retail company (Hydro One) and the Independent Electricity Market Operator (IMO). As well, the Ontario Energy Board was given greater regulatory powers and the

more than 250 municipal electrical utilities were told to form themselves into business corporations. **(11)**

In May 2001, the Conservatives opened up Ontario's power market to competition. In less than six months, the market was in chaos, prices were skyrocketing and threatened power shortages were looming on the horizon. The Tory government's decision to try to sell Hydro One turned into another disaster for them, and for Ontarians. (***link to CUPE – Ontario Hydro Case**)

In April 2002, CUPE and the CEP Canada won an Ontario Supreme Court ruling, which stated that the Ontario government had no authority to privatize Hydro One – the second largest transmission company in North America.

By May 2002, the government was pushing ahead with deregulation despite the lessons of California, Alberta and elsewhere. The average price for power in May and June was around 2.6cper kWh but by mid-July was 6.8c, by mid-August 8.2cand by mid-September, 8.7c.

In November 2002, Premier Ernie Eves announced a four-year rebate/price cap scheme, essentially derailing the Ontario Tory experiment with retail electricity market deregulation. The rate cap was 4.3c/kWh and the rebate was for 100% of all hydro energy charges above that mark. This decision has placed a huge burden on the Ontario public; it is the taxpayers and ratepayers who ultimately pay for this "price cap".

At the same time, the government declared that immediate action would be taken to increase the province's electricity supply – in particular, natural gas and renewable energy source generation. **(12)** A month prior to the major blackout, of August 2003, John Wilson from the Ontario Energy Coalition, in an editorial in The Toronto Star, warned the government that "blackout risk is high in Ontario". **(13)** Even with the announcement of a plan to spend \$100 million on leasing temporary portable gas generators, Ontarians faced a very serious situation.

Ontario's experiment with privatization and deregulation has failed in every sense, and this year's massive blackout has called it into question even more.

Alberta

In the year 2000, the government of Alberta deregulated electricity and from June to October, the price of electricity rose from 5 cents to 25 cents per kWh. The government subsequently instituted a rebate program for businesses and householders, costing taxpayers \$2.3 billion. Dr. Marjorie Griffin Cohen summed up the situation in Alberta as follows:

“Before deregulation Alberta had one of the cheapest and most reliable electricity systems in North America. After deregulation it experienced regular brown-outs and was the third most expensive jurisdiction in North America after California and Hawaii.”
(14)

The Klein government put in a rate freeze just before a provincial election, claiming it would be there for many years, and then cancelled it about a month after he won re-election.

New Brunswick

New Brunswick is forging ahead with its own plans for deregulation and privatization. New Brunswick Power Corp. will be split into New Brunswick Power Generation, New Brunswick Power Transmission, New Brunswick Power Nuclear Corp., New Brunswick Power Distribution and Customer Service Corp., and New Brunswick Electric Finance Corp. The wholesale market will be opened to competition and the immediate effect will be to allow New Brunswick to sell electricity directly to the northeast U.S. market.

British Columbia

The B.C. Liberals under Gordon Campbell were elected in 2001 and have already started down the road to privatization and deregulation in that province.

B.C. Hydro was, until very recently, an integrated whole incorporating generation, transmission, and distribution functions. It operated in such a way as to capitalize on the efficiencies of the integration of these separate functions. This is what happens in a vertically integrated Crown Corporation. Revenue from generation and distribution of power supports transmission and other investments. Breaking this up is termed “unbundling” – the first step towards privatization. The process of breaking up B.C. Hydro has just begun. The government passed legislation to create a new transmission company in the spring of 2003.

Although it is clear that B.C. Hydro has a natural advantage over other power producers because its energy is almost entirely derived from hydro-electricity, this is not the only “natural” advantage. By retaining its operations as an integrated system of generation, transmission and distribution, it has also enjoyed a large competitive advantage. There is no competitor who could provide power at a lower cost than B.C. Hydro, as it is currently constituted. To open it up to competition and a free market would in fact, force it to provide power at as high a cost as its competitors. **(15)**

A Natural Monopoly

Electric power in the past was considered a natural monopoly. Then, as now, it was impractical to have companies competing to wire up homes and businesses or to build long-distance transmission lines. Effective competition was impossible and power companies were given local monopolies. These were regulated to stop them from exploiting local customers.

How can there be true competition in the power industry? As the B.C. Citizens for Public Power have explained, this would require a large number of buyers and sellers, in order that no one group may unduly influence the quality or price of the product or service. In the U.S. and the U.K., when utilities are privatized and the industry deregulated, there is a rapid corporate concentration in every aspect of power generation and delivery. In the B.C. situation, there are only a few river systems. These are so effectively coordinated that there can only be a few players to divide up the hydro pie.

Once B.C. Hydro is deregulated, these few generation companies will be pressuring the government to allow them to reintegrate transmission and distribution functions, and therefore transform it back into a kind of monopoly. However, this monopoly would be profit-oriented and would not have the same mandate to provide all British Columbians with universality of service.

The danger is imminent, however, and the destruction of Hydro's competitive advantage is a main focus:

“At any given time, B.C. Hydro is able to direct the generation of power from the most cost-effective location and move it through the transmission system, according to B.C. Hydro priorities. By giving private producers equal call on the transmission grid, the government will have appropriated a large part of BC Hydro's competitive advantage for the benefit of its competitors [and] ... we will ... have set in motion the chain of events that must ultimately result in the wholesale privatization of B.C. Hydro.” (16)

Contracting Out to Accenture

In April, 2003, about one-third of B.C. Hydro's workforce was contracted out to Accenture, a private corporation with head offices in Bermuda. (Accenture is already well-known in Ontario for its privatization of social services.) All major service activities of B.C. Hydro were transferred to Accenture, including customer services, information technology, financial services, human resources and procurement services, the “brains” of the organization.

Regional Transmission Organizations (RTOs) and Deeper Integration with the U.S.

One of the most alarming pieces in the B.C. Hydro puzzle is the intent of the B.C. government to hand over total operation and control of the B.C. electricity transmission system to a U.S. body, RTO West.

What is RTO West and what is the Problem with them Coordinating the B.C. Transmission System?

Transmission is integral to the B.C. Hydro system with all of the advantages listed above. The government has begun the process of breaking up B.C. Hydro, and created a new B.C. Hydro Transmission Corporation. Its stated intention is to turn this transmission system over to RTO West. After that, all planning, investment and operation decisions for B.C.'s transmission system would be the responsibility of RTO West.

RTO West is made up of a group of mostly private electricity market players from the western U.S. Their vision is a Seamless Western Market to include three western RTOs (RTO West, WestConnect RTO and CalSo) ultimately stretching from B.C. to Texas and finally, Mexico. **(17)** The B.C. government seems quite willing to turn over B.C.'s public electricity to U.S. control, claiming the need to comply with the U.S. Federal Energy Regulatory Commission (FERC). Even though these changes are not actually required under the North American Free Trade Agreement (NAFTA), the B.C. government claims it is required to break up B.C. Hydro in order to export power to the U.S.

The FERC is the American federal agency responsible for regulating the interstate transmission of natural gas, oil and electricity. Through FERC, the Bush administration is pushing its directive for a Standard Market Design (SMD). The intent is to shift from a regulated utilities-based model to a competitive market-based model of providing electricity. FERC says this cannot be carried out without the development of a completely integrated transmission system and they also want greater access to transmission systems for private companies. They would do this by creating much larger integrated transmission systems in each region and as well, take away control of transmission from the utilities.

In 1996 FERC issued *Order 888*, which required integrated utilities to separate their transmission functions from wholesale power marketing functions. FERC *Order 2000* encourages utilities to join Regional Transmission Systems (RTOs). **(18)** We see Canadian provinces following both of these "orders".

Within the U.S. there is growing opposition to the FERC proposals for RTO West (and

other RTOs). U.S. senators from still-regulated states have been resisting the FERC's plan to impose a uniform market structure on all lower 48 states through the creation of RTOs. The Western Governors' Association, federal senators, public utilities and municipalities in the Pacific Northwest are all voicing their opposition to these proposals, while the B.C. government is doing just the opposite. In contrast, the Government of Manitoba has chosen not to implement the FERC requests, yet it is enjoying an increasing volume of electricity exports to the U.S.

Once tied to the RTO West, the B.C. transmission system will operate very differently; a market system will be established and the rights to transmit electricity will be tradable. By introducing speculation into the pricing mechanism, this could be a serious threat to security of electricity supply, particularly in what are now low-cost regions. B.C. could be the next site of a shutdown, similar to the California crisis and the recent Northeastern U.S./Ontario blackout. **(19)**

The Need for Public Investment in the Electricity System

In a privatized, deregulated system, local consumers become pawns in a game controlled by profit-seeking energy corporations. The worst culprit so far is Enron. Soon after the California market was opened up, an Enron trader sold the state about 5,000 megawatts of power to go over a 15 megawatt line! As journalist Greg Palast commented:

"That's like trying to pour a gallon of gasoline into a thimble – it can't be done... the slightest shortage on a hot or cold day and – whammo! – the tight little wolfpack of electricity sellers can extract a limitless ransom. When the weather would not create a shortage, a monkey wrench could. Repairs were scheduled at peak times. Reliant [Houston Industries] employees say the company was running plants at odd hours, 'ramping' them up and down, which whistleblowers at the company considered deliberate sabotage." **(20)**

Dr. Anjali Sheffrin, in a report for California's purchasing agency, gave evidence that California power companies used "physical withholding" to create false shortages in California 98 percent of the time between May and November, 2000." **(21)**

The Need for Public Investment in Supply

While it is true that the shutdown of August 2003 in the northeast U.S. and Ontario was not solely due to **supply** of electricity, it is definitely a factor in the crisis.

Ontario now has a deregulated wholesale power marketplace. The province does have a supply problem and this has not been dealt with appropriately in eight years. In other deregulated jurisdictions electricity market supply margins have been kept intentionally kept low. If margins are low, profits are high even though such low supply margins are

extremely risky.

The current Conservative Government had claimed for years prior to the opening of the electricity market in May 2002, that Ontario had plenty of surplus power. Then, several times during the summer of 2002 Ontario was short of power and had to import as much as 4,000 megawatts (almost 20 % of peak demand). At that time, they paid up to \$2000 per megawatt hour for these imports, 50 times the pre-deregulation price. (approximately \$40 per megawatt hour). **(22)** This year, the government is spending \$100 million on temporary gas generators to try to fix their supply problems. Over the last ten years, the increase in consumption has far outpaced the investment in supply by approximately two to one. **(23)**

Just as in other deregulated jurisdictions, there is no coordinated plan to increase the supply in Ontario and no viable plan for conservation or use of alternative energy sources. Diversifying supply can protect the population from the volatility experienced during the latest shutdown. The Tory plan is exactly the opposite – to tie Ontarians closer to the U.S. and closer to a crisis bound to occur when deregulation is mixed with a lack of capacity and transmission problems.

The Myths Surrounding Ontario Hydro's Debt

In 1985 during a Liberal – NDP minority government, debates began about the continuation of the Tory commitment to building another nuclear power plant – Darlington. A Select Committee on Energy, however, recommended it proceed.

In 1987 the Liberals swept into power with a massive majority. Darlington went ahead and eventually added over \$14 billion to the Ontario Hydro debt. Howard Hampton has called this the “single largest public policy mistake in Ontario history”. **(24)** It was clearly not an issue of capacity – Ontario had enough power without building Darlington.

- In 1985 Ontario had 27,300 megawatts (MW) of electrical capacity (40% more than the peak demand of that year)
- By 1992 it was expected to be 30,500 MW
- By 1998 (without Darlington) Ontario Hydro would have been able to deliver 33,100 MW (36,600 with Darlington)
- In 2000 the peak demand hovered around 24,000 MW
- In the summer of 2002 it reached 25,600 MW
- In 2003 the normal demand on a hot summer day is around 25,000 MW **(25)**

Exposing the Truth about “The Debt”

The current Ontario Conservative government used the Ontario Hydro debt as the excuse to move forward on privatization of electricity. We need to examine what the Ontario Energy Coalition calls the “debt scandal” in more detail.

In 1990 with the election of an NDP government in Ontario, the inherited Ontario Hydro debt was \$14.3 billion. At the time, Ontario Hydro was spending \$240 million on pre-engineering for yet three more nuclear plants. The NDP government put a stop to all new nuclear power development.

In 1993, the debt was being paid down for the first time in many years - down by \$400 million that year, down by \$700 million in 1994 and in 1995 by \$1.5 billion. At the end of 1995 the debt stood at \$31.4 billion. By 2002, it had reached \$38 billion - an amount which was not out of line with the debt of similar utilities. Hydro Quebec’s debt stood at \$34 billion in 2002 and yet it was referred to as the “crown jewel” rather than a “debt crisis”. In 2003 it is now \$41 billion and there is still no outcry. Over the years, Ontario Hydro raised the money it needed by issuing bonds. These bonds were guaranteed by the provincial government and therefore, borrowing costs were much lower than private sector rates.

Serious problems with the nuclear generating stations have accounted for much of Ontario Hydro’s debt. However, as in every case, privatization of public power only exacerbates the problem – in this case, robbing Ontarians of electricity revenues and driving up the cost of borrowing for future electricity projects. Nevertheless, the Ontario Conservatives pressed ahead with their plan.

In 1998 *The Energy Competition Act* began the break up of Ontario Hydro (a Crown corporation) into two private corporations – Ontario Power Corporation and Hydro One – both still owned by the Ontario government. The debt of \$38 billion was also broken down as follows:

- One part of the debt (\$17 billion – 45% of the total debt) was moved to the successor companies of Ontario Hydro to be part of these companies. Customers would be paying off this part through their electricity bills
- The other part of the debt (\$21 billion – 65%) was also to be transferred to customers through “stranded debt charges”, consumption taxes and /or payments in lieu of taxes **(26)**

What is “stranded debt”? The balance of the \$21 billion was added to the provincial debt as it was no longer recoverable through the operation of Ontario Hydro. It is held by the Ontario Electricity Financial Corporation and it is a debt on electricity assets

which private buyers would not be required to assume. “Stranded” means not tied to any assets.

In Ontario, the public is actually “stranded” with a total of \$38 billion in government-guaranteed debt left behind by the old Hydro.

Clearly, the idea was that the private sector would reap huge profits and the Ontario public would be left paying off the debt. As the Ontario Energy Coalition said recently:

“The debt is being used to justify privatization. The debt at Hydro is like a mortgage. It’s exactly the same as if you bought a house, lived in it for many years, built up a lot of value and then borrowed money to fix up your house. Then, at that exact point in time, you are forced to sell your house far below market value, move into an apartment, pay rent, while still being required to pay the mortgage on your house. Does it make any sense for the people to be paying the debt on the assets they will no longer own? Even is privatizing the profits while keeping public the debt, the risks and the pollution.” (27)

The Bruce Nuclear Public-Private Partnership – the Ontario Public Keeps on Paying the Bill

In the year 2000, as part of the Ontario government’s move towards privatization, Ontario Power Generation (OPG) was forced to reduce its market share from 85% to less than 65% by 2004 and to just 35% by 2010. This opened the door to foreign multinationals such as British Energy to move in on the largest nuclear plant in the world, the Bruce Nuclear Plant.

Bruce Power, a wholly owned subsidiary of British Energy, announced an agreement with OPG to lease and operate the Bruce “A” and “B” nuclear generating stations until 2018, with an option to lease for another 25 years. Termed a “sweetheart deal” for British Energy at the time, the deal left OPG with the responsibility for the cost of nuclear waste management and disposal as well as plant decommissioning (estimated at \$7.5 billion). Bruce Power’s initial lease payments were \$625 million, and it has to pay annual rent based on its revenue (estimated at \$150 million in 2002). These represent a fraction of the profits the corporation was expected to reap. Once again, the government retained much of the risk and the corporation was given the right to walk away from the lease anytime after 2006 if it isn’t making enough money.

Later that year, Cameco Corporation, from Saskatchewan, acquired a 15% stake in Bruce Power. In 2002, British Energy went bankrupt and sold their 82.4% stake in Bruce Power. TransCanada Pipelines and BPC Generation Infrastructure Trust (established by the Ontario Municipal Employees Retirement System – OMERS) each acquired a 31.6% stake in Bruce Power and Cameco increased its stake to 31.6%.

This example of a Public-Private Partnership (P3) at the Bruce Nuclear Plant

demonstrates yet another way in which the Ontario Tories burdened the people of that province with both the risk and the loss of potential revenue.

The Ontario Public Pays for the “Price Cap”

In 2002, when the Ontario Conservatives capped the price of electricity, they capped only the retail price charged by the local utilities to homeowners. The wholesale price is still deregulated. The system, which was essentially the same one as that set up in California, is explained by physics teacher James McLaren **(28)**:

- Each electricity generating company in Ontario bids to supply power to the market in five minute increments, for example, from 10:00 am to 10:05 am at a price of 6 cents per kilowatt-hour
- Any might then bid at only 3 cents per kilowatt-hour
- Then, the Independent Market Operator (IMO) accepts bids to supply the estimated demand for the next hour - each company that bids gets paid at the highest average price accepted by the IMO in order to meet the demand
- The demand for electricity fluctuates constantly during the day - electricity is very expensive at peak times and very cheap at non-peak times
- On August 6, 2003, for example, the peak price was **92 cents** per kilowatt- hour at around 5:30 pm, and **25 cents** per kilowatt-hour at 6 am - this is the wholesale price
- The average wholesale price is often greater than the retail price of **4.3 cents** (set by Ernie Eves during last year’s crisis)
- **Who pays for this difference in price?** The taxpayers of Ontario are paying, and the “stranded” debt left when Ontario Hydro was broken up is increasing. Ontario Power Generation, a Crown corporation, cannot make a profit so whatever it makes reduces this stranded debt
- Even with this, the Tories have added about \$600 million to the debt since their price cap was instituted - in this market, they are always buying when prices are high and selling when they are low

- The Ontario NDP has calculated that the price “cap” on rates combined with subsidies to business has cost taxpayers close to \$1.5 billion and this money is simply flowing out of the public purse and into private pockets - the Ontario Energy Coalition expanded upon this in May 2003 (only weeks before the Blackout)

“So far the government has spent \$2 billion setting up deregulation in Ontario. It lost \$10 billion on the lease of eight nuclear reactors to the private sector and spent \$1.5 billion to subsidize private electricity last year. With only polluting portable generators standing between Ontarians and blackouts, the Tories are hoping voters won’t notice that our electricity system is facing a crisis.” (29)

The Need for Canadian Electricity Cooperation

In Canada, the provinces and territories are part of an interconnected electricity “grid”. This is a network of power plants, substations and transmission lines that crosses borders. There are basically two advantages to being part of this grid. First, if one utility experiences power demands it cannot supply immediately, others come in to assist until its own reserve generation can be brought back on line. Secondly, it allows utilities to sell power to each other in order to reduce generation costs. In reality, however, under increasing pressure to deregulate their electricity systems, Canadian jurisdictions are being drawn into the tangled web woven by energy corporations south of the border.

The majority of the northeastern United States – particularly Ontario, New York, Ohio and Michigan, are part of the Eastern Interconnection. B.C. and Alberta, along with the western United States, belong to the Western Interconnection. Quebec is connected with the grid primarily through direct current lines. Newfoundland and the territories are not part of the grid (although Labrador is part of the grid through Quebec). (30)

Canada has relatively large energy supplies. This has meant that many provinces have historically exported some of their electricity south to the U.S. It has also meant, however, that our focus has been north-south, instead of east-west. According to Natural Resources Canada, a study is underway to examine the feasibility of east-west transmission lines, possibly between Manitoba and Ontario, and Ontario and Quebec. Lessening our dependency on the interconnection with the U.S. surely makes sense in light of the recent crisis.

Manitoba

Manitoba Hydro is a publicly owned and operated energy utility, the fourth largest in Canada. Manitoba is known as “the hydro province” with about 95% of its energy coming from 12 hydroelectric generating stations. The system currently operates

through three major interconnections, mostly between the Midwestern U.S. and Manitoba. They also have nine formal long-term export trade agreements with various electrical utilities and numerous short term agreements with over 30 electrical marketers in Midwestern U.S., Ontario and Saskatchewan.

In contrast to other jurisdictions, Manitoba Hydro has been able to participate in a continental market on its own terms, by maintaining itself as an integrated electricity system. By doing so, Manitoba now has the lowest power prices in the Western hemisphere. It is quite clear, therefore, that Manitoba, while selling substantial amounts of power to the U.S., sees no need to turn its transmission over to as RTO nor does it need to deregulate. This disproves the claims of those who say this is necessary in order to sell power.

Manitobans, already proud of their government's commitment to public power, applauded the recent *Manitoba Hydro Protection Bill*, which prohibits the government from selling off its major generation, transmission and distribution facilities without a public referendum.

Quebec

Quebec Hydro is another example of a successful integrated public power system. This fact was demonstrated clearly during the August 2003 Blackout when Quebec was completely unaffected. Interestingly, Vermont and Quebec have not bowed to deregulation, and both retained power throughout the crisis. Of course, Quebec is more self-reliant and, like Manitoba, uses abundant water power, but the fact that each operates as an integrated whole must be a factor in the examination of what went wrong in the 2003 Blackout.

Building an improved, east-west Canadian grid clearly makes sense in an era of volatile deregulated systems. As stated earlier, electricity is unique and cannot be stored in large quantities. Therefore, it needs a lot of spare generating and transmission capacity for periods of peak demand. It also requires an enormous amount of planning and coordination. Maintenance is key, but is not given the priority it should have in a deregulated market system. Under deregulation, local utilities no longer have an incentive to invest in maintenance of transmission lines. The danger occurs because the more power that is shipped over long distance in the new deregulated markets, the more power those sometimes antiquated lines must carry.

Once, transmission networks were built to serve regulated monopolies. There was no competition for customers. Today, in the deregulated utilities market, the "mission" is to connect buyers and sellers seeking the best deal wherever they can get it. **(31)** The congestion has been likened to a freeway in rush hour as power surges through the system, wires become filled to capacity and system operators have to order reduced output from plants – suddenly stopping the traffic, but costing billions as it does so.

What are Some of the Lessons to be Learned from August 14, 2003?

As the Ontario Electricity Coalition pointed out, Ontario Premier Ernie Eves was wrong when he stated that the recent blackout was a “very unusual event”. **(32)** So too was the Chief Executive of National Grid Transco(NGT) in London (Transco also owns Niagara Mohawk) when he said that the August 2003 blackout in London, U.K., was a “totally exceptional” occurrence. **(33)** Blackouts are in fact becoming the norm in deregulated markets throughout the world:

- 1998 - In Auckland, New Zealand, a devastating blackout occurred after deregulation
- 1999 – In New York, New Jersey, Pennsylvania, Illinois, Arkansas, Louisiana (all deregulated markets) blackouts began wreaking havoc throughout the region
- 2002/2001 – Californians suffered through a major power crisis (and blackouts stopped once deregulation was put on hold by the California Power Authority)
- In mid-August, 2003, a serious power shutdown affected 50 million people in the Northeastern U.S. and Ontario
- In late August, 2003, London, England faced a serious power blackout during the rush hour lasting hours as thousands were trapped in the subway system

These are the dangers facing us as we reflect on the most recent disaster:

1. Although supply of electricity is not the major problem, there is a shortage of publicly provided supply and it is a problem when it is kept at a minimum in order to maximize profits for private companies.
2. Transmission grids are under greater stress than ever as they move power over huge distances and buyers and sellers compete for the profits to be made on what was once “public power”. In the northeastern U.S. and Canada, the grids have been neglected in the past decade and are therefore, susceptible to breakdown.
3. There are inherent dangers in the “unbundling”(or breaking up) of vertically integrated public companies solely to meet the needs of the U.S. plan for deregulation and privatization.
4. Deep integration with the U.S. regional transmission organizations is a major problem.

5. The countless stories about the Ontario Hydro “debt” have been used as an excuse for divesting to the private sector.
6. As witnessed in the example of Ontario, a “price cap” can be misleading as consumers and citizens continue to pay for the subsidies.
7. Canadians need to know that the trend in the United States is away from the privatization of public utilities, towards public power. The cost of private power in the U.S. is currently 16 % higher than public power. So, not only within Canada, but in all of North America, the Eves Conservative government stands out in its defence of power industry privatization.

Possible Solutions - What are We Calling For?

The Canadian Union of Public Employees calls for the following:

#1: We want vertically integrated public power systems operating throughout the country.

A publicly owned and highly regulated electricity system promotes a stable economy that works in the interest of the general public rather than the interests of shareholders and a small number of corporations. It brings greater accountability and lower prices to consumers. The International Energy Agency has found a consistent pattern of cheaper power under publicly owned utilities – 16 to 20 percent cheaper on average than private utilities. Therefore, in every region, we need to keep fighting attempts to deregulate and privatize our electricity systems. Right now those fights are continuing in British Columbia, Alberta, Ontario and New Brunswick. Deregulated markets have been the cause of blackouts throughout the world in the last five years in particular. Our fight should be proactive, to try to rebuild public power systems. We need to stop the “unbundling” of our provincial power systems in B.C. and Ontario; we can push for the return of the local distribution companies, the local hydros in Ontario, to non-profit status – as they were before deregulation. Like our health care, electricity should be seen as a right, and only in public hands can this right be properly protected.

#2: We want to see an improved Canadian grid. East-west electricity cooperation is far preferable to north-south integration for greater reliability of power and accessibility.

We have an abundance of inexpensive power available to us in Canada. In recent years, however, exporting provinces have made their own export arrangements with the United States, and now we are at the point of having several provinces more closely linked to U.S. grids than they are to each other. This was never more clear than in the August 2003 Blackout when a malfunction in the northeastern U.S. knocked out Ontario’s entire grid. We need to put the brakes on plans for a new “common market”

for electricity in the northeast U.S. and Ontario. The Northeast Power Coordinating Council is pushing a new Northeast Regional Transmission Organization (NERTO) under pressure from FERC. Clearly, this will only lead to further dependence on the U.S. system.

In British Columbia, the government is prepared to voluntarily place themselves under U.S. regulatory law, dividing up the power company into separate generating and distributing units to conform to FERC rules. As well, the B.C. government is prepared to hand over the province's transmission system to RTO West, again, bowing to U.S. pressure. Why are we tying ourselves ever more closely with the U.S. rather than ensuring Canadian needs are met first? In our view, provinces could continue to export power to the U.S., while at the same time be linked more closely to each other through an east-west grid. We must continue to push for such cooperation with federal government departments investigating this possibility.

#3: We want a secure, affordable supply of electricity with stable and fair prices for consumers.

Essentially, what this means is that we have to have a regulated market to spread the cost of electricity around rationally and equitably. There are two major factors involved in setting the price of electricity: first, we cannot store electricity and demand varies throughout the day, the week, and the year; second, that means that someone has to pay for a large amount of idle generating capacity to ensure reliability. The tighter the supply of peak demand power the more the suppliers of power can get for it under deregulation. That is why we must regulate the system, look to new investments in public generation plants where necessary, and at the same time, look to conservation and energy efficiency measures to complement this system. **(34)**

#4: We must begin or reinstate energy conservation and efficiency programs.

Publicly owned and operated utilities are in the best position to manage demand through conservation and energy efficiency programs and balance these with expansion of capacity. After the crisis in California, the state government reduced demand by 12 per cent in a single year by instituting the "20/20" plan. The state authority encouraged consumers to cut their power demands by 20 per cent and the authority then cut their bills by another 20 per cent. They also gave out 180,000 fluorescent light bulbs in low-income neighbourhoods, offered rebates on energy efficient refrigerators and brought in new insulation and building standards. **(35)** There are some conservation programs that have worked in Canada too (e.g. PowerSmart in B.C.) and these must be expanded. We need to demand better standards for efficiency and conservation from all levels of governments.

#5: We must have environmental sustainability to protect the future for the generations coming behind us.

First Nations elders often talk about protecting our land and resources with the next seven generations in mind. We must steadily reduce the environmental impacts of our energy use and move closer to a pollution-free, renewable energy future if we are to leave a proud heritage for others to inherit. The rising consumption of carbon-based energy sources in particular, has been a major source of global climate change. The labour movement has strongly supported a path of environmentally sustainable economic development, including support for the Kyoto Accord on climate change. This means encouraging a shift to less polluting alternatives such as solar, wind, earth and tidal power, and hydrogen fuel cells. Manitoba and Quebec, both publicly owned, not-for-profit power companies have been investing in wind turbines (Denmark produces nearly 20 per cent of its power from wind alone). We must continue to push for our government to meet the targets of the Kyoto Accord. By doing so, we will be clearly setting ourselves on a separate path from the U.S. There is, as some have already pointed out, a “contradiction between continental energy integration on the one hand, and a goal of long term environmental sustainability on the other” (36)

#6: We want to retain and expand the supply of decent, well-paying, unionized jobs in the entire energy sector.

Every day, thousands of Canadian men and women are on the front line, providing vital services to our electricity systems. The cruel irony is that these workers are constantly under attack and their rights to organize, bargain and to strike are being eroded. In recent years, more than 160,000 workers were cut from the electricity sector in the U.S. and Canada as the sector plunged into the mania of deregulation. “The contribution of these workers to the integrity, efficiency and reliability of the power grid was sacrificed to the corporate greed of companies like Enron and FirstEnergy. It gives the expression ‘last one out, turn out the lights’ a whole new meaning.” (37) The pattern of cutbacks, privatization and casual employment has been seen throughout the country. It is time once again, to fight for our jobs and to fight for public ownership of our basic community services, including electricity. This must include good jobs in the future from new energy conservation and alternative energy development.

#7: We must have democratic control of our electricity systems.

Only by having electricity in the hands of a body which is publicly accountable to the electorate can we be assured of a safe, secure, affordable and reliable electricity system. Democratic control cannot be assured if we continue to allow our electricity decisions to be determined by continental concerns or for that matter, international agreements which do not benefit Canadian communities.

#8: We want the Canadian government to set up public hearings as part of the Joint Canada-U.S. Task Force on the Power Outage.

In the weeks following August 14, 2003, a Task Force was appointed by Prime Minister Jean Chretien and President George W. Bush, to identify the causes of the recent power outage affecting northeastern U.S. and Canada. In the first week of September 2003, the U.S. House of Representatives energy and commerce committee held two days of hearings into the August 14 outage. We call on the Canadian government to set up an open, public process to investigate the causes of the power blackout and possible solutions for the future of our electricity systems.

#9: We want to end continental integration of electricity markets and prevent the inclusion of electricity in trade and investment deals such as GATS.

The Canada/U.S.A. Free Trade Agreement (FTA) and the North American Free Trade Agreement (NAFTA) have determined that there can be no 'price discrimination' in favour of Canadians. NAFTA also requires 'proportional sharing' of energy supplies with the U.S. in the event of shortages; exports cannot be cut back to deal with Canadian shortages. The same proportion of exports relative to total production over the past three years must be maintained.

Although these NAFTA provisions clearly inhibit 'preferential treatment' for Canadians in terms of access to our own resources, the provisions have never been directly challenged or even definitively interpreted. The National Energy Board (NEB), for example, is still mandated through the NEB Act to establish that exports are "surplus to reasonably foreseeable national requirements". Exports are not approved by the NEB if customers in Canada wish to purchase the power.

NAFTA does allow for Canada to regulate exports to conserve resources, protect the environment and stabilize prices (even though exports cannot be reduced below the average of the past three years, if U.S. customers object).

If Canada exported more power to the U.S. under long term contracts, this may cause us problems in light of the proportional sharing provisions of NAFTA, the fact that it is difficult to shut off a source of supply in the future, and the possibility of Canadian power rising to U.S. levels.

We want the right to determine our own Canadian energy policy. Alongside our allies in the Canadian Labour Congress (CLC) and the community, we will continue to fight the continental integration of electricity markets and, as well, the inclusion of electricity in trade and investment deals such as the General Agreement on Trades and Service (GATS).

At the last CLC Convention (May 2002), delegates passed a resolution calling for support for coalitions to fight deregulation and keep our electrical utilities under public ownership; to

demand that control and regulation of Canadian energy remains with the Canadian public and that provinces and territories set energy rates that benefit citizens; and that the CLC establish a task force on energy and natural resources to construct a comprehensive policy and campaign in response to the current regulatory, trade and sectoral situation of the energy industry and that strategic nationalization of the energy and natural resources sector be part of the policy and the task force to report to the Executive Council within a year.

Conclusion

CUPE members throughout the country can be proud of the historic struggles to protect public power in past decades. The power blackout in Ontario and the U.S. demonstrated once again that privatization and deregulation are a danger and a threat to our communities. Electricity is a human right and like every other human right, we must fight to ensure that it is enshrined in our laws and accessible to all citizens. And fight we must, against the power of mighty corporations who will turn this right into a privilege in order to line their own pockets with the profits that can be made from electricity. Our governments at all levels must be held accountable as we continue this struggle for publicly owned and operated electricity systems.

For More Information

Ontario Electricity Coalition:	http://www.electricitycoalition.org/
BC Citizens for Public Power:	http://www.citizensforpublicpower.ca/
CUPE Local One (Toronto Hydro):	http://www.cupeone.com/
CUPE Local 500 (Manitoba Hydro):	http://www.cupe500.mb.ca/
CUPE Local 957 (Quebec Hydro):	http://www.scfp957.org/
CUPE Local 998 (Manitoba Hydro):	http://www.cupe998.mb.ca/
Power Workers Union/	
CUPE Local 1000 (Ontario Hydro):	http://www.pwu.ca/index.php
CUPE Local 1500 (Quebec Hydro):	http://www.scfp1500.org/

Endnotes

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- (21) Palast, "California Reamin': California and the Power Pirates", p. 10
- (22) Hampton, p.263-264
- (23) OEC Blackout Backgrounder
- (24) Hampton, p. 135
- (25) Hampton, p.132
- (26) OEC Fact Sheet, June 3, 2002
- (27) OEC Media Release, "Debunking Hydro Deregulation", May 2003
- (28) James McLaren, Ottawa physics teacher, "Electricity economics negate "rules" of supply and demand – or, how I learned to start worrying and hate the deregulated electricity market", from Straight Goods, Aug. 25, 2003
- (29) OEC Media Release, "Under the Rug", May 20, 2003
- (30) Natural Resources Canada – Backgrounder, August 2003
- (31) Daniel Yergin and Larry Makovich, "The system did not fail. Yet the system failed." New York Times, August 17, 2003
- (32) OEC – Blackout Backgrounder

- (33) Mike Ingram, "London power blackout and the cost of privatization", World Socialist Web Site, Sept. 2, 2003
- (34) (Hampton, p249)
- (35) OEC Blackout Backgrounder, p.5)
- (36) CLC draft energy paper, 2003
- (37) CUPE FASTFACTS, Vol. 10, Number 26, Sept.1, 2003).

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