



DIRECTION FOR CHANGE

**Charting a Course
for Competitive Electricity and Jobs
in Ontario**

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November, 1997

Pibs 3600e

ISBN 0-7778-6867-9



Printed on recycled paper



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A Message from the Minister of Energy, Science and Technology

Fellow Ontarians:

Within months of taking office, the Government initiated a process of intensive study and consultations aimed at ensuring a competitive, reliable, affordable and safe supply of electricity for all Ontarians. I am now pleased to announce a proposal for restructuring Ontario's electricity system that would meet these objectives and build on the momentum of increased investment and job creation opportunities evident throughout the Province.

We believe a competitive electricity system will deliver significant benefits to all power consumers in the province — from homeowners to large institutions, commercial businesses and major industries — as well as to Ontario taxpayers. In particular, the Government believes that the move to a competitive electricity market is the key to:

- creating new jobs and a robust economy that is competitive and attractive to investors;
- providing the lowest possible costs while safeguarding a reliable, safe, environmentally sound electricity supply;
- restoring the vitality and financial soundness of Ontario's electricity system; and
- ensuring a level playing field for all participants with an independent regulator.

In 1996, the *Advisory Committee on Competition in Ontario's Electricity System* reported a compelling need for change in Ontario's electricity sector. In the months since then, the Government has carefully considered the Committee's advice in the context of the immediate challenges facing Ontario Hydro.

Our plan proposes to move carefully but quickly with the creation of competitive wholesale and retail markets in the year 2000. To achieve our goals, we need to accomplish a great deal over the next two years. I believe the plan represents an approach to reform that is orderly, balanced, fair and forward-looking. Electricity consumers, representatives from industry, organized labour, environmental organizations and individuals have all made a strong contribution to the Government's review of options for change in Ontario's electricity sector. We will build on these vital partnerships as we proceed with the creation of a competitive electricity system for Ontario.

Ultimately, the benefits of competition in electricity mean more jobs and opportunities, and a healthier economic future for the people of Ontario. These objectives continue to represent the Government's highest priorities. And they are the driving force behind our proposals for change. For the Province of Ontario and its millions of electricity consumers, the Government's electricity reform plan represents a necessary and significant departure from the past. I believe it also represents a major step towards a brighter future for us all.



The Honourable Jim Wilson
Minister of Energy, Science and Technology



EXECUTIVE SUMMARY

The Government has developed a plan for introducing full competition into Ontario's electricity system in the year 2000. Implementation of the plan involves legislative change, and is subject to approval by the Legislative Assembly.

Competition among suppliers will create the conditions for lower electricity prices, thereby supporting investment and job creation across the province. It will ensure that investments in electricity generation and transmission are made prudently and that assets are managed carefully and responsibly. It will mean more choices for customers and will lead to new technologies and approaches that are safe, reliable and better for the environment.

The *Advisory Committee on Competition in Ontario's Electricity System*¹ made recommendations on how to open up Ontario's electricity market. The Government agrees with the Advisory Committee that the need for change is compelling.

Neighbouring provinces and states are restructuring their electricity sectors and are expecting lower prices. Ontario needs to keep pace to preserve its industrial competitiveness. Favourable electricity prices are critical to attracting investment, and to creating and preserving jobs.

The business record of Ontario Hydro has been unsatisfactory, as shown most recently in a highly critical assessment of Ontario Hydro's nuclear division prepared by a team of U.S. experts. Ontario Hydro's problems have continued over a number of years, and are in large part due to the fact that the corporation is a monopoly, and has not been subject to the discipline of the marketplace.

New opportunities are emerging as the North American electricity industry changes from one based on monopoly to one based on competition. Ontario needs to restructure its electricity industry in order to create a business climate which supports new technologies, new services, and new ways of doing business.

The Government's main restructuring objective is to support investment and jobs through the lowest possible electricity prices and the best possible electricity service. The Government continues to place a high priority on safety, reliability, and sound environmental practices, and has designed its restructuring plan to maintain and improve on current performance. Other major objectives include the establishment of more commercially oriented electricity companies and the restoration of financial soundness in the provincially-owned part of the electricity industry.

¹ The Committee, chaired by the Honourable Donald S. Macdonald, reported in June 1996.

The Government has developed a nine-part plan for restructuring the electricity industry, re-organizing Ontario Hydro into new companies, and putting the new companies on a sound business and financial footing. It proposes to introduce legislation covering this plan in 1998. If approved, key parts of the plan would be proclaimed and implemented as soon as possible. The Government proposes to consult widely on the legislation and on a number of specific issues that require further consideration and public discussion.

The plan would:

- create a competitive market in the year 2000 for both wholesale and retail customers
- establish an Independent Market Operator, and provide for an interim supply market for replacement power
- separate monopoly operations from competitive businesses throughout the electricity sector
- provide the Ontario Energy Board with an expanded mandate to protect electricity consumers
- take steps to ensure environmental protection
- encourage cost savings in the local distribution sector
- establish a level playing field on taxes and regulation
- restructure Ontario Hydro into new companies with clear business mandates, and,
- take action to put the new electricity companies on a sound economic and financial footing.

The Government proposes to create two new commercial electricity companies to succeed Ontario Hydro. The Ontario Electricity Generation Corporation would take ownership of Ontario Hydro's generation assets, and have a mandate to ensure safety, reliability, and sound environmental performance, while maximizing the value of the generation business to Ontario taxpayers. The Ontario Electric Services Corporation would be a holding company for other electricity businesses, including transmission, distribution, retail, and operating contracts. It would be required to keep its monopoly and competitive businesses separate from each other through an appropriate structure of subsidiary companies.

Existing Ontario Hydro debt will be held by a publicly-owned financial holding company, as recommended by the Advisory Committee.

The Government will work with Ontarians to ensure that the electricity industry is restructured in a timely and well-managed way, with the necessary protections for both business and residential customers.

An independent Market Design Committee composed of industry and customer representatives will have a large role in designing the rules for the new market. Its composition and terms of reference will be announced shortly. Under the plan, a redesigned Ontario Energy Board would ensure that fairness prevails in the operation of the market and the setting of transmission and distribution tariffs. Ontario Hydro and its successors will be expected to work closely with employee organizations to achieve a smooth implementation of the proposed corporate restructuring.

The Government will ensure that Ontarians have opportunities to comment and provide advice every step of the way. It will consult on the drafting of the proposed legislation. It will consult on measures that may be required to recover potentially stranded debt. And it will continue to consult with municipalities and local distribution utilities on aspects of restructuring in the distribution sector.

If adopted, the plan outlined in this paper would ensure the vitality and financial integrity of Ontario's electricity system, increase opportunities within the electricity industry, maximize benefits to electricity consumers, improve reliability, safety and the environment, and, most importantly, support investment and job creation in Ontario's expanding economy. This plan charts a course for competitive electricity and jobs in Ontario.





CHAPTER ONE

The Need to Restructure

Reliable and affordable electricity is essential to the people and businesses of Ontario. Every household and business uses electricity every day. The average household in Ontario spends nearly \$1,000 on electricity a year, and some industries have electricity costs that amount to over five per cent of their total spending. The total electricity bill for the province amounts to almost \$10 billion per year. A sector this large and vital to everyday life needs to be working well. It must be efficient, innovative, responsive, fair to its customers, and open and fully accountable. It must, in short, provide the kind of service that Ontarians expect.

Report after report has said that change is needed. The Government agrees that the case for change is compelling:

- Other jurisdictions are restructuring rapidly, setting examples, and positioning themselves to compete more effectively for investment and jobs. Ontario risks falling behind;
- Ontario Hydro's business performance over the past ten years has been unsatisfactory, and needs to be decisively improved. Many of the difficulties relate specifically to the nuclear division. In the late 1980s, there were significant cost overruns associated with the Darlington nuclear station. In the 1990s, according to the most recent assessment, there have been ongoing problems with the management of the nuclear plants and the training of nuclear workers;
- New business opportunities are arising that can be realized to maximum advantage only within a new industry structure.

Other Jurisdictions are Benefitting from Change

Other jurisdictions are restructuring their electrical monopolies and moving to lower prices. A new structure for the electricity industry is rapidly taking shape as a result of technological change, increased customer pressure for lower electricity prices in today's more competitive global economy, and the example of successful restructuring in a number of other industries, such as natural gas and telecommunications.

Ontario's immediate neighbours are among those moving ahead most rapidly. Ontario must keep pace. Failure to act now will mean further erosion of Ontario's current electricity price advantage and a loss of investment and jobs.

In Canada, most provinces have already announced or implemented important restructuring initiatives. Some utilities, such as Hydro Quebec, are moving rapidly to position themselves for new markets. Internationally, reform of the electricity industry is under way in numerous countries, some of which have systems similar to Ontario's. For example, major changes are taking place in Australia, the U.K., Norway and Latin America.

RECENT DEVELOPMENTS IN THE NORTH AMERICAN ELECTRICITY SECTOR

Canada

- Alberta passed legislation in 1995 introducing competition into the province's wholesale electricity sector. The reforms, that took effect in January 1996, opened up access to the transmission grid, created a power exchange, unbundled transmission from generation, and introduced competition for new supply.
- Quebec unveiled its new energy policy in late 1996, opening Hydro-Quebec's grid to outside competitors; setting wheeling rates; encouraging alliances and partnerships to promote Quebec's export potential, and establishing an independent energy regulator.
- In June 1997, Manitoba passed legislation giving other power producers wholesale access to Manitoba Hydro's transmission lines, ending its historic monopoly over the power grid. In preparation, Manitoba Hydro has restructured itself into distinct functional business units and set financial targets, including one to improve its debt/equity ratio.

United States

- In 1992, the U.S. passed the Energy Policy Act mandating wholesale competition. California took the lead and became the first state (1994) to propose the introduction of full retail competition. By 1995, most states were actively considering restructuring initiatives.
- In 1996, the Federal Energy Regulatory Commission (FERC) issued Order 888 opening up utility-owned transmission lines to common carrier status and providing for full recovery of stranded costs for wholesale contracts.
- By 1997, legislation about retail access was passed or was under serious consideration in California and most northeast states, including New York, Pennsylvania, and Michigan. Pilot programs for introducing retail competition are underway in 11 states.
- Restructuring has precipitated over \$50 billion in merger and acquisition activity since 1995. A number of combinations have included natural gas and electricity firms seeking convergence opportunities in a rapidly integrating energy sector.

What is happening in the U.S. electricity industry is important to Ontario:

- Electricity prices in the high-cost northeastern U.S. market are expected to decline, improving the relative economic position of those with whom Ontario competes for investment and jobs. For the U.S. as a whole, the introduction of competition could result in electricity price reductions of 8 to 15 per cent, according to a recent study by the U.S. Energy Information Administration¹. Other authorities project even larger price benefits. The Ontario economy depends heavily on international and interprovincial exports, and the cost of electricity is often an important factor influencing the price of Ontario products and the ability of Ontario companies to grow and create jobs. In an increasingly competitive world, the province cannot afford to overlook any developments that threaten its economic competitiveness.
- Ontario wholesale and retail customers deserve and will demand the same improved services and choices that are available across the border. Ontario must keep pace in terms of technology and service, as well as price.
- An open U.S. market changes the rules under which power flows are co-ordinated across North America. While today's circumstances suggest that Ontario is not likely to become a significant electricity exporter for a number of years, it is still necessary for Ontario to adjust to the new market context, and prepare for more international and interprovincial trade in electricity by investing in improved transmission and inter-tie capacity.

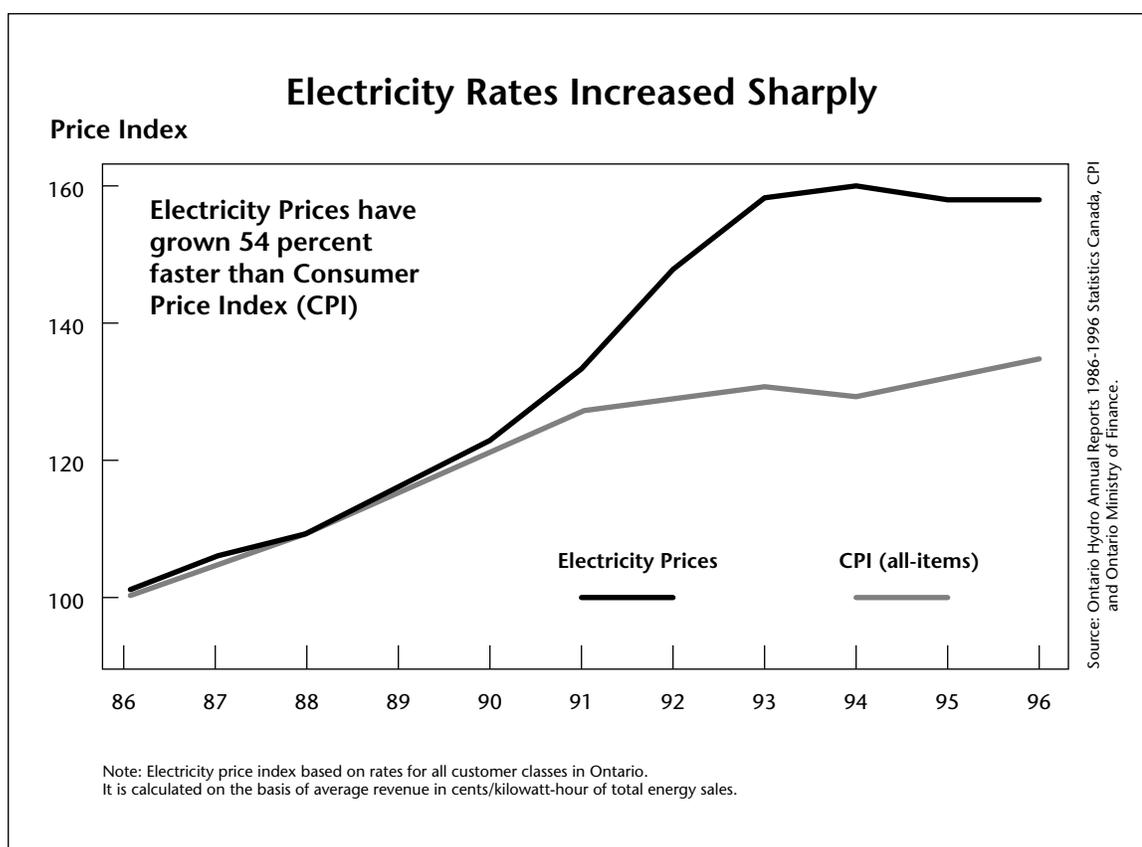
There is consensus among observers on where the electricity industry is headed. Industry analysts believe that within ten years, monopoly franchises will have been replaced by competitive supply. Large bureaucratic organizations will have given way to leaner, more accountable, more efficient business rivals. Electricity will be traded in a market much like other commodities; convergence will have occurred among the electricity, gas and other businesses; and new organizational arrangements will have emerged. Small scale, local generation will have a larger share of the market. At the same time, electricity is likely to be traded over much longer distances as market integration gradually takes place. These trends are under way because of technological changes, notably more cost-efficient generation using natural gas, and policy changes introduced by governments to open markets, improve industry performance, and achieve lower prices for customers.

By moving quickly to ensure electricity rates and services that compare favourably with the best of its neighbours, Ontario can deliver one of the conditions that businesses need in order to grow. By failing to act, Ontario could find itself with rates significantly above those in competing jurisdictions, and lose out in the race for investment and jobs. This would not be acceptable.

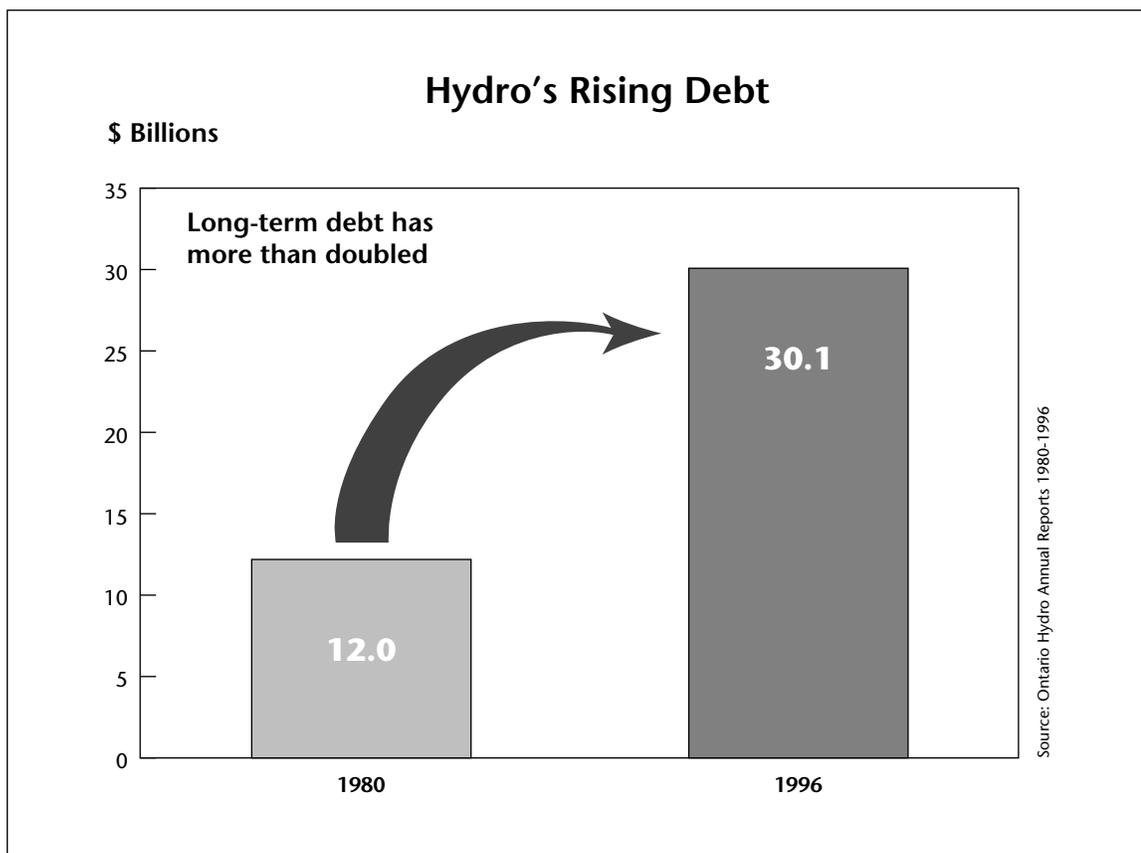
¹ The Energy Information Administration, *Electricity Prices in a Competitive Environment: Marginal Cost Pricing of Generation Services and Financial Status of Electric Utilities*, August 1997.

Ontario Hydro's Unsatisfactory Business Record

Ontario Hydro has played a prominent role in supporting the economic development of Ontario. It brought low-cost power to the province's growing industries, towns and farms. It pioneered important and sophisticated technologies, both nuclear and non-nuclear, and for many years it was universally recognized as a well run and responsible organization.

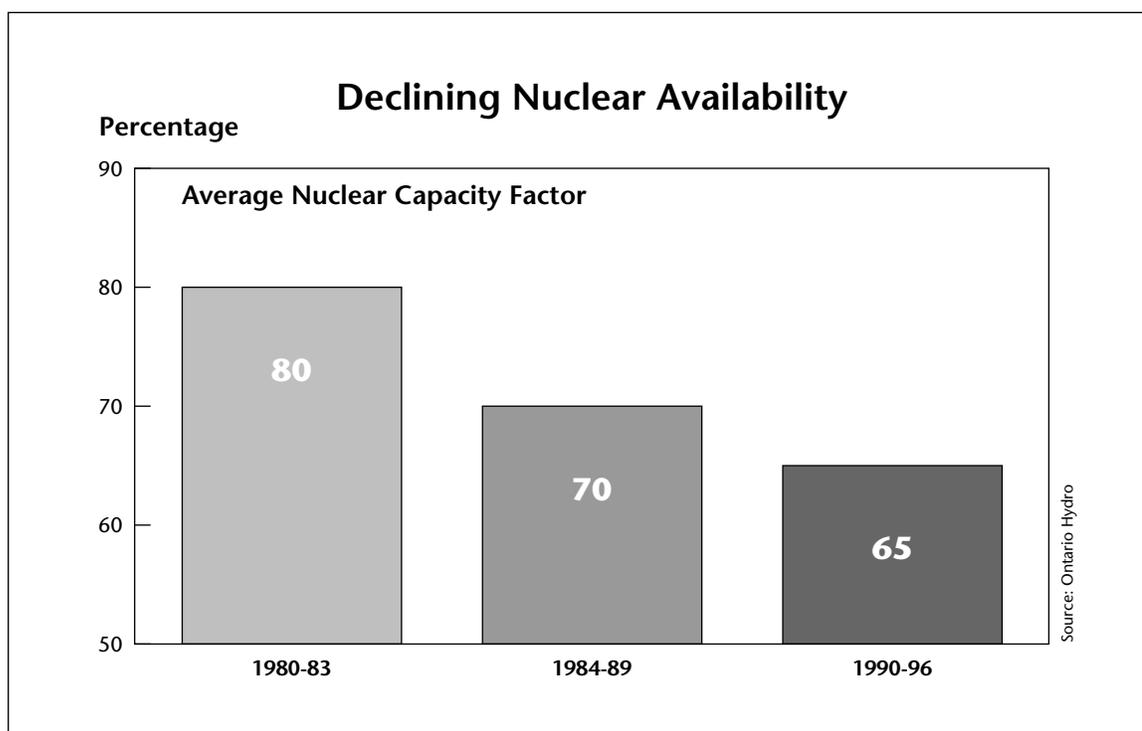


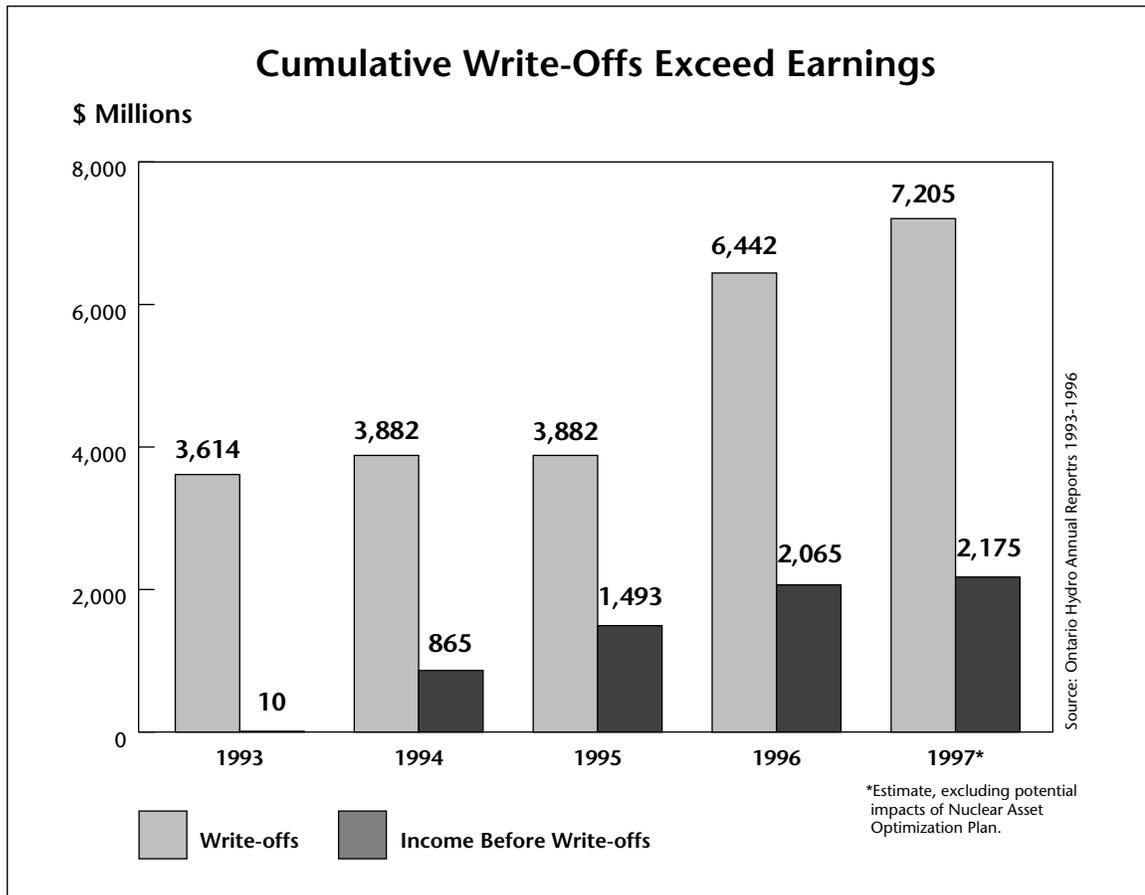
Over the last decade, however, Ontario Hydro's performance has faltered. The people of Ontario know this. They saw their power costs increase by thirty per cent in the early 1990s. They have read about the poor performance of Hydro's nuclear reactors and are concerned about nuclear safety. They have read about environmental problems and believe that the record of this major Ontario company should be much better than it has been. They have heard about high wages and excess staff at Ontario Hydro. Some of them question why Ontario needs more than 300 local distribution utilities.



The people of Ontario know, as well, that Ontario Hydro is struggling with over \$30 billion in debt. It has interest payments that amount to well over a third of total revenues. Its debt has come down somewhat in the past four years, but the implication of the proposed Nuclear Asset Optimization Plan is that the pace of debt reduction might have to be moderated, or even temporarily reversed.

Ontario Hydro has written-off more than \$7 billion in non-performing assets over the last five years. It could be facing additional write-offs related to the Pickering A and Bruce A nuclear stations. Write-offs occur in business because of significant, unexpected changes in market conditions and technology. In Ontario Hydro's case, they also reflect a record of poor decision-making over the last ten years.





The unsatisfactory business performance of Ontario Hydro has two basic causes:

- The industry has been operated for far too long as a monopoly. The problems with electricity monopolies are well known: higher prices, excessive debt, poor priority setting, and bureaucratic inefficiency. The solution is the same everywhere: open the market and introduce competition.
- Ontario Hydro has an ambiguous accountability relationship with the provincial government. It has a complex mandate as a commercial entity, an at-cost provider, and a regulator of other utilities. In addition, it has had to undertake, at ratepayer expense, many public policy responsibilities not normally faced by other companies. These have included expenditures for economic development and the servicing of remote and high cost areas. Ontario Hydro's structure and mandate need to be changed, allowing each of its successor companies to operate with a clear business focus. Programs that support price equity, such as rural rate assistance, should continue to be financed by electricity customers. However, any costs related to economic development and social policy that are undertaken at government request should be funded by the government, not the electricity customer.

The Ontario taxpayer guarantees the debt of Ontario Hydro. The Province needs to achieve better business performance from Ontario Hydro and its successor companies to ensure that the taxpayers of Ontario are not at risk.

Some important changes have been made at Ontario Hydro in the past few years, but it is clear that leaving the monopoly to reform itself is a prescription for halting and inadequate reform. A competitive market and new corporate structures and mandates are essential in order to achieve lasting results, and to restore the confidence of Ontarians in the future of their electricity system.

Positioning Ontario for Emerging Opportunities

Opening the market to competition would create substantial business opportunities for new technologies, new forms of business organization and new energy-related industries. The result would be investment and jobs. A restructured electricity industry would be more successful in building new partnerships with the telecommunications industry, the natural gas industry and the manufacturing sector. Industry restructuring must be directed to creating and exploiting new opportunities for Ontario businesses, not just to correcting the problems of the past.

New rules would make it easier for private and publicly owned firms to explore new opportunities for combining activities across the electricity, gas, and telecom industries. Throughout the system, there are opportunities to achieve savings and introduce new ideas that reward the pursuit of excellence.

There are also opportunities on the horizon for new forms of generation that are more environmentally friendly than present fossil-based technologies. The emerging technologies include high efficiency gas generation, biomass, and solar power. With an open market and a developed system of agents, brokers and marketers, customers would be able to choose from a range of "Green Power" suppliers, and investors in these businesses would more easily find the customer base they need to earn profits and support the growth of their firms.

Conclusion

In considering the need for change, the Government has been mindful of the unique characteristics of the Ontario power system. Ontario has a large publicly-owned company that accounts for well over ninety per cent of all the electricity generated in the province. It has a high dependence on nuclear plants, which generate over half of the province's electricity. It has one of the largest transmission systems on the continent, with 29,000 kilometers of transmission line. And it has one of the more fragmented distribution systems, with more than 300 local distribution utilities. Ontario needs a solution that goes to the root of the problems facing the electricity industry today, builds on the strengths of the existing system, and enhances the province's economic competitiveness.





CHAPTER TWO

Objectives of the Restructuring Plan

The Government is proposing to move ahead rapidly with the introduction of a competitive electricity market in Ontario. In developing its proposal, the Government took into consideration the recommendations of the *Advisory Committee on Competition in Ontario's Electricity System*¹. It also considered the views expressed by Ontarians during extensive consultations following the Committee's report. Legislation to restructure the industry and Ontario Hydro will be introduced in early 1998. The Government will continue to consult widely on the drafting of the proposed legislation and on the implementation of all approved reforms.

The restructuring plan proposed in this document has a number of objectives:

- supporting investment and jobs
- reasonable prices and more choice for electricity consumers
- enhanced safety, reliability and environmental protection
- more efficient distribution
- fair rules for all industry participants
- more business-like investment
- financial soundness in the provincially-owned part of the industry.

Supporting Investment and Jobs

One of the Government's key objectives is to create and maintain jobs through competitively priced electricity for the people and businesses of Ontario, while ensuring safety and reliability. In the past Ontario's low electricity prices compared to neighbouring jurisdictions have been a key factor affecting Ontario's ability to attract and retain investment and related jobs. Competitively priced electricity is especially important for Ontario's export-oriented industries, such as chemicals, forest products and mining. It is also important for the province's core manufacturing sector and many service industries.

Over the past decade, the electricity cost advantage that made Ontario an attractive place to live and invest has been significantly eroded. Ontario industries now pay considerably higher rates than their competitors in most other Canadian provinces. They have a narrow rate advantage over their U.S. competitors. A number of important industrial firms have reported that the price of electricity has influenced their investment decisions. Since open electricity markets in the U.S. are expected to put downward pressure on prices, Ontario must restructure its own electricity market if it is to protect investment and jobs.

¹ The Committee, chaired by the Honourable Donald S. Macdonald, reported in June 1996.

Reasonable Prices and More Choice

Low and fair electricity prices are important to all Ontarians. Ontario Hydro's average wholesale price for electricity has been frozen until the end of the year 2000. This has provided cost relief to customers and encouraged increased cost awareness within the company. The freeze is a transitional measure bridging the Ontario electricity system from the "cost determines price" rules of monopoly to the "price determines cost" principle of open market competition.

Competition in the electricity industry will lead to prices that are realistic and economically meaningful. Prices will reflect both demand conditions and production costs, and will be driven to the lowest possible level as customers shop for the cheapest available power. In this way, competition will create lower prices for households, small businesses, and large volume customers. A key reform objective is to ensure that all Ontarians enjoy the benefits of competition as soon as possible.

Under the Government's proposal, the prices for transmission and local distribution, as distinct from electricity itself, would be regulated to ensure that these components of the total price are also as low as possible. In addition, the current protection of rural customers from excessively high rates would be continued.

For households, Ontario's electricity rates are the third highest among Canadian provinces, and are a concern of many families. A competitive market, with fair rules and vigilant regulation, would ensure that prices are as low as possible.

A competitive market would also give individuals and businesses greater choice. Customers would be able to choose their own electricity supplier, either directly or through agents or brokers. This would encourage greater product and service innovation, and price and cost discipline on electricity providers. With protected monopoly franchises, Ontario Hydro and the local distribution utilities have been slow to adopt new ideas and best practice techniques of management. Opening up the telephone transmission lines to competition resulted in a wide range of new service ideas. The same effect is expected to happen in electricity. All customers—industrial, commercial and residential—would be able to purchase energy packages designed to meet their specific needs.

Enhanced Reliability, Safety and Environmental Protection

Ontario has a safe electricity system. The Atomic Energy Control Board and other independent experts have confirmed that the nuclear system is being operated safely. However, improvements in the management of the nuclear plants and the training of nuclear staff are clearly needed to ensure that safety standards are maintained and improved over the medium term, and to enable the plants to be operated at economically viable levels.

Ontario also enjoys very reliable electricity service by world standards. Current performance levels must be maintained, and reliability ensured.

The Government is committed to introducing competition in a manner that does not compromise safety or reliability. Other jurisdictions have shown convincingly that significant savings can be achieved while simultaneously enhancing safety, reliability and service.

A competitive market would help the environment in several ways. It would, over time, encourage newer, more advanced generation technologies using cleaner fuels. A market would also allow consumers to choose more environmentally sound sources of supply. It would encourage more careful use of resources, since costs would be under greater pressure than they are with the cost-pass-through rules of monopoly. The commercial successors of Ontario Hydro, like other firms, will continue to meet their environmental responsibilities.

The Government is firmly committed to meeting its national and international commitments on the environment, and will pay particular attention to this matter during the next few years when the proposed lay-up of nuclear reactors forces more reliance on fossil generation. Overall emissions from Ontario Hydro's fossil plants have compared favourably with those of generators in the U.S. northeast and mid-west. In implementing an electricity market, the Government will ensure that the province's environmental protection record is maintained and improved.

More Efficient Distribution

In designing a new electricity system for Ontario, one of the Government's goals is to create a cost-competitive distribution sector to support Ontario's industrial competitiveness. Ontario electricity consumers pay about \$1.5 billion per year for local distribution service. Achieving economies in this sector will contribute to keeping prices low, securing investment and jobs, and avoiding risk for the taxpayers.

Ontario has more than 300 local distribution utilities. Experience elsewhere suggest that significant economies could be achieved in the system, as a whole, through the amalgamation of smaller utilities and the adoption of "best practice" methods.

Fair Rules for All Industry Participants

It is important, in an open market, that all participants are subject to the same or equivalent rules—that there is a "level playing field". This is a matter of both fairness and efficiency.

Ontario's publicly owned electricity companies currently have advantages over privately owned companies with whom they are increasingly in competition. They do not pay the full range of taxes and do not usually pay dividends to their owner. Ontario Hydro has a further advantage, being able to borrow at preferred rates due to the Provincial guarantee on its debt. On the other hand, publicly owned electricity companies often bear extra costs to fulfill public policy mandates, and are often subject to rules that privately owned companies are not.

Fair rules should also apply within the publicly owned sector. The rules should be the same for local distribution utilities and for Ontario Hydro's successor companies.

Finally, it is desirable to pursue regulatory symmetry across industries that have a large number of features in common. In this regard, the Government has heard many comments to the effect that the Ontario electricity industry should be restructured using the natural gas industry as a model. The Government agrees on the need for a fair and effective regulatory regime that supports a level playing field between electricity and natural gas.

More Business-like Investment

History has shown that competitive businesses invest more carefully than monopoly businesses. They manage costs and risks more carefully. They choose their priorities rationally and thoughtfully to yield the highest returns. They exit from their mistakes quickly. This is the kind of investment behaviour that should predominate in the future electricity industry in Ontario. They serve their customers better and they maintain competitive prices because of the threat of competition.

An important objective of reform is to ensure that new supply decisions—including replacement supply decisions made over the 1998 to 2000 period—are made on businesslike grounds, and subject to normal market tests. A competitive market will impose more discipline on investment decisions and will help the industry avoid both the overbuilding and asset impairment that occurred in the past.

In a competitive market, private power companies and industrial co-generators would have open access to transmission and distribution. This would provide investors with the confidence to commit to new generation projects whenever they see viable investment opportunities. These new private suppliers could be expected to win a growing share of generation over time. Meanwhile, the threat of customer loss would make the large companies that remain much more careful in ensuring their investments are well chosen, well managed, and cost effective.

Financial Soundness

In restructuring the Ontario electricity system, the Government cannot overlook the very high debt of the province's largest firm. Ontario Hydro must be reorganized. Its successors need to be given clear business mandates, and be put on a competitive commercial footing. The new companies must be accountable in financial matters, and operate with prudent and cautious financial assumptions.

The handling of Ontario Hydro's debt problem has important economic and financial implications. Mechanisms have to be put in place to ensure that the utility's debt is reduced as quickly as possible, and that the burden of debt reduction is fairly distributed among Ontarians. At the same time, these mechanisms must not interfere unduly with the introduction of competitive electricity prices, put an unfair burden onto electricity customers, or leave taxpayers at risk for the Ontario Hydro debt that the Province guarantees.

Conclusion

The Government has listened carefully to the views of Ontarians on what they expect from their electricity system. There is widespread agreement on the basic objectives for reform. Individuals and groups will, of course, attach different priorities to the various goals, and view the trade-offs differently. In putting together its proposed action plan, the Government has sought to assemble a package of reforms that deals comprehensively and fairly with all the problems that need to be addressed.





CHAPTER THREE

Key Elements of the Restructuring Plan

The *Advisory Committee on Competition in Ontario's Electricity System* made a series of recommendations for introducing a competitive electricity market in the province. In developing its plan for electricity sector reform, the Government has accepted the general direction recommended by the Advisory Committee.

In the past year, the Government has consulted extensively across the province, and has carefully examined electricity sector reforms in other jurisdictions. This work was carried out against a background of rapidly changing conditions in the U.S. industry and continuing disappointment with the performance of Ontario Hydro's nuclear generating assets. Recent, detailed assessments of the nuclear system have confirmed that the reactors are safe, but that major efforts are needed if Ontario's reactors are to be returned to industry leading standards of safety and economic performance.

The Government is proposing a nine-point plan to advance the electricity restructuring agenda in Ontario. The plan includes specific policy commitments about the industry and Ontario Hydro, new rules and institutions, new mandates and responsibilities, and a proposed schedule for implementing the various reforms. The plan provides greater certainty to participants in the energy industry—and more generally to the people and businesses of Ontario—so they can get on with their investment and job creation plans.

In order to reform the electricity industry in Ontario, the Government proposes to:

- create a competitive market in the year 2000 for both wholesale and retail customers
- establish an Independent Market Operator, and provide for an interim supply market for replacement power
- separate monopoly operations from competitive businesses throughout the electricity sector
- provide the Ontario Energy Board with an expanded mandate to protect electricity consumers
- take steps to ensure environmental protection
- encourage cost savings in the local distribution sector
- establish a level playing field on taxes and regulations
- restructure Ontario Hydro into new companies with clear business mandates, and,
- take action to put the new electricity companies on a sound economic and financial footing.

Competition in 2000 for Both Wholesale and Retail Customers

The Government proposes to establish a competitive electricity market in the province in the year 2000. On the competition start date, Ontario Hydro's transmission grid and the wires of all the province's electricity distribution systems would become common carriers with posted prices, in much the same way that telephone lines and gas pipelines became common carriers when those industries were opened up to competition. An Independent Market Operator would be established as a separate Crown Corporation to coordinate the market and dispatch power.

All generators, including those outside Ontario, would be able to participate in the market by offering supply. This would end the current monopoly on electricity generation enjoyed by Ontario Hydro.

In the reformed electricity system, all customers would have access to competitive suppliers. The Government is proposing an early, unphased move to full retail access. Retailers, brokers, and large volume customers, including local utilities, would buy from the spot market or arrange bilateral contracts with generators, as they would in a wholesale model. Small businesses and households would also have access starting in the year 2000. They would have the choice of staying with their current utility, having an electricity broker arrange supply on their behalf (as in the gas and telephone industries), or even buying directly themselves. Retail access would mean the end of the current electricity supply monopoly enjoyed by all local distribution utilities in the province, including Ontario Hydro Retail.

Customer choice is the key to better prices and better performance, and is central to the electricity industry reform package that the Government is proposing. The Government has concluded that a simultaneous move to competition for all customers would be the best approach for Ontario. It is fair because it avoids the inequities that a phased approach would cause between large and small volume electricity customers competing in the same industry. It gives residential customers and small businesses the kind of choice that U.S. residential customers will soon be getting in the largest U.S. states. It also provides the local distribution utilities with a clear signal that their supply monopolies will soon be a thing of the past. The early introduction of full competition is the best way to provide reasonable prices for all consumers, for households and businesses alike.

The Government recognizes that not all customers would be interested in choosing suppliers if customer choice is introduced. Distribution utilities would continue to supply electrical energy, either directly or under contract with a private firm, so customers would not be required to make any changes if they did not wish to. Customers would always have access to electricity, at market-based prices, through their current supplier. Service to customers in rural and remote regions would be assured. The rural rate assistance program would continue to be paid for within the electricity system.

Participants in the electricity industry will have to move quickly over the next two years to put the needed new institutions and technologies into place. California and New York are implementing full retail access on an equally fast schedule, and the Government is confident

that the task can be completed successfully here in Ontario. It will, however, be guided by the advice of the redesigned Ontario Energy Board and the proposed Independent Market Operator on the technical readiness of the system.

As a means of ensuring a smooth transition, it may be useful to introduce retail pilots prior to the launch of full retail competition. The Government will explore this option with the Market Design Committee and the proposed Independent Market Operator.

Under the plan, choice of supplier would be provided to all electricity customers in Ontario, including those currently served by investor owned utilities. The introduction of competition raises issues pertaining to the treatment and regulation of private utilities and off-grid electricity distributors and customers. The Government intends to consult with affected parties to ensure that the proposed policy is implemented in a fair and reasonable manner when special circumstances exist.

An Independent Market Operator to be Created

An effective Independent Market Operator (IMO) is essential to the working of a competitive market. The Government proposes to establish a new, non-profit Crown Corporation to run an electricity exchange, dispatch power based on least cost bids, and arrange financial settlements between buyers and sellers. The IMO would also forecast supply requirements, encourage investment as necessary, and advise the Government if additional steps are needed to ensure adequate and reliable supplies of electricity in the province. It would act as an impartial manager of the market system, ensuring that competition develops quickly and without abuse of market power.

An independent market operator was recommended by the *Advisory Committee*, and is being adopted in most jurisdictions that are putting their electricity systems on a market-driven basis. Industry representatives have begun discussions on issues relating to the design and implementation of such an institution. The Government will establish a Market Design Committee to provide a formal mechanism for electricity industry and customer representatives to collectively advise on the rules and structure for the new electricity market, including the terms of access for generators located outside Ontario. The Market Design Committee will also advise on the governance and operation of the proposed IMO. The composition and terms of reference for the Market Design Committee will be announced shortly.

The governance structure for the IMO should reflect the diversity of electricity market participants. The rules established for the operation of the IMO and the market should be designed to support open and fair access for competing suppliers. Adopting these principles for the design and operation of the IMO would provide assurance that suppliers have their electricity dispatched according to a neutral set of operating rules and ensure secure, reliable supplies of electricity for the province.

Prior to the proposed introduction of a formal market in 2000, the Government will introduce an element of competition in electricity supply by establishing an interim market for "replacement" power. Generators from both within and outside Ontario will be encouraged to bid to meet the additional need for electricity in the event that some of Ontario Hydro's

nuclear reactors are laid up. This interim market will be run by a separate unit within Ontario Hydro. Establishing an interim market for replacement power is an important transitional step toward the proposed introduction of full competition in the year 2000, and in the meantime puts discipline on Ontario Hydro to ensure its short-term investments in electricity supply are made on a business-like basis.

Monopoly Operations and Competitive Businesses to be Separated

An early move to full competition provides the best prospect for reasonable rates and improved service options. However, transmission and local distribution remain natural monopolies, and are not amenable to direct competition.

In the proposed electricity system, it is essential that the “wires” businesses—the monopoly parts of the industry—be operated in a way that is scrupulously fair to all market participants. There must be no conflicts of interest or cross-subsidization between monopoly operations and other businesses that the wires companies might own. Conflicts of interest could arise, for example, if a company owning both transmission and generation assets were able to use its control over transmission to favour its own generators and discriminate against those of its rivals. Cross-subsidization could occur if costs associated with competitive businesses were imposed on customers of monopoly businesses.

A strong Independent Market Operator and a strong Ontario Energy Board are the most important defences against potential conflicts of interest. The Government has concluded that it is also necessary to separate monopoly wires businesses from electricity generation.

Accordingly, the Government is proposing to create two new commercial corporations to replace Ontario Hydro, one for wires and services and the other for generation. This full corporate separation of functions is intended to provide further assurance to consumers and private sector investors that transmission decisions and investments cannot be unfairly influenced by the generation company. Transmission would continue to be associated with other non-generation businesses, but would be required to maintain separate accounts to ensure that transmission tariffs are set fairly and can be reviewed easily by the Ontario Energy Board.

Local distribution utilities would be required to separate their wires businesses from any competitive businesses they may have or develop in future. They would be required to establish separate subsidiaries for their competitive businesses.

The Province will examine how government-owned businesses in this context will share risks and opportunities with the commercial sector.

Provincial and local wires companies would be permitted to own a small amount of generation, as necessary for technical and efficiency reasons. The Ontario Energy Board would be empowered to approve generation investments beyond these levels if they are consistent with the fair and efficient operation of the market. Distribution utilities that presently own generation assets would be allowed to keep them.

The Ontario Energy Board to be Redesigned with a New Mandate

The Government proposes to introduce legislation to redesign and strengthen the Ontario Energy Board, in order to provide better protection to Ontario's electricity consumers.

The Board would be responsible for regulating transmission and distribution tariffs, within a framework specified by the Ontario Minister of Energy, Science and Technology. The Government proposes to direct the Board to examine, advise on, and subsequently implement a performance-based approach to regulation that ensures efficiencies are achieved in the monopoly parts of the industry and result in benefits to customers. The Government's goal is tariffs that are as low as possible on a sustainable basis. Transmission would continue to be priced at a uniform rate for all customer classes.

The Board would also be mandated to regulate investments in the expansion of the transmission grid. In this regard, it would work with the IMO to ensure that adequate transmission capacity is developed to maintain reliability and promote the growth of competition.

The Board would regulate the Province's local wires business and all local distribution companies, and be responsible for ensuring that the distribution companies fulfill their obligation to connect and serve their customers. In a competitive market, customers would be able freely to decide who will provide their electrical energy. At the same time, they can be assured, through effective regulation, that the delivery system will remain as reliable as it is today.

The Board would oversee the activities of the Independent Market Operator, and would be responsible for promoting the development of competition in generation and retail services. The Board would have an important role in ensuring that market participants do not abuse market power or engage in anti-competitive pricing or other monopolistic practices. In this regard, it would have responsibility for ensuring the licencing of all agents, brokers, marketers and generators participating in the market.

Finally, the Board would continue to regulate the natural gas business. It would seek to ensure that its approaches on natural gas and electricity are compatible, particularly regarding the rules governing investment and affiliate relationships.

Open access and vigilant regulation are key conditions for establishing a competitive market in electricity generation, and for securing downward pressure on electricity costs and prices. The Government has had extensive discussions with electricity market participants on whether Ontario Hydro's domination of generation would preclude the development of a genuinely competitive market. The Government has concluded that there is no need, at this time, to reorganize Ontario Hydro's generation assets into multiple generation companies. If an open market is approved, competition from imports and other energy sources should be sufficient to maintain discipline on prices and costs, particularly in view of the proposed reduction in Ontario Hydro surplus generating capacity.

Under its plan, the Government would monitor the market structure of the industry on an ongoing basis to ensure an appropriate degree of competition in generation. Both the IMO and the Ontario Energy Board would provide advice on how well the market is performing, and would alert the Government to any problems arising from the generation company's dominant market position.

Steps to be Taken to Ensure Environmental Protection

As Ontario's electricity system makes the transition to competition, the Government of Ontario is firmly committed to maintaining and enforcing its standards for environmental protection. Provincial environmental initiatives must be flexible enough to enhance competition, facilitate access for new generators, and spur more efficient and environmentally benign technologies.

In particular, the existing limits on emissions of sulphur dioxide, nitrogen oxides, and carbon dioxide from electricity generation will remain in place. Further environmental protection measures that are flexible and cost effective will be considered in the design of the electricity market. Options to be considered include a nitrogen oxides emissions cap and trading program for all Ontario-based generation, and an emission performance standard for all generators selling power into the Ontario market.

The Government will ensure that reviews of the environmental impacts of new electricity construction projects are conducted in a timely and efficient manner. Ontario's environmental review process will offer streamlined approvals for standardized, relatively benign electricity generation technologies—such as combined cycle natural gas generation—and will not pose undue barriers to the introduction of more innovative technologies, such as fuel cells.

The Government will consult with the public on cost effective options to ensure environmental protection while moving to a more competitive, commercial electricity market. Specifically, the Government will be considering market-based mechanisms that would favour more environmentally preferred forms of generation and penalize those forms of generation with a more negative environmental impact.

Restructuring of the Local Utilities to be Encouraged

The Government agrees with the *Advisory Committee* on the need for efficiency improvements and consolidation in electricity distribution. It has concluded that geographic rationalization in the distribution sector should proceed on a commercial and voluntary basis.

The municipal utilities, as a group, recognize the need to consolidate organizations and achieve economies in their operations. The Government is encouraged that several restructuring studies have already been initiated at the local level across the province. The Government's proposal to introduce full retail competition starting in 2000 is a strong signal to the local utilities to proceed rapidly with a voluntary restructuring of their operations.

The Government's expectation is that municipal electrical utilities will achieve significant geographical consolidations over the next five years. The Government will work with the Ontario Municipal Electric Association, Ontario Hydro and its successor companies, the Ontario Energy Board, and others to develop benchmarks and guidelines for efficiency, reliability and accountability to facilitate locally-driven reforms.

The Government believes that restructuring should be controlled mainly by communities themselves, working closely with one another, the Province, and the local businesses. Under the Government's plan, when consensus on amalgamation among utilities cannot be reached, the Ontario Energy Board would be available, at the request of the utilities, to facilitate the process and ensure that the interests of the consumer are met.

A Level Playing Field on Taxes and Regulations to be Established

The Government is proposing five action steps to ensure fair competition among all players in the new electricity marketplace.

The Government is proposing that the new electricity companies created from Ontario Hydro be required to make payments in lieu of corporate income and capital taxes. These payments would be designed to reflect the amount of corporations tax that would be paid if the corporations were privately owned.

Similarly, the Government is proposing that local distribution utilities make payments in lieu of income and capital taxes. As in the case of the new provincial companies, these new obligations would be put on the monopoly wires businesses as well as any competitive electricity businesses that the utility or municipality may own. All payments in lieu would be dedicated to paying down Ontario Hydro's stranded debt, until it is extinguished.

Second, the Government is proposing to provide Ontario Hydro's successor companies with clear business mandates, consistent with the *Ontario Business Corporations Act* (OBCA). The local utilities would also be put on a commercial footing, consistent with the OBCA, providing them with the flexibility they need to make the important business decisions that lie ahead. Like the new provincial companies, local electrical utilities would be required to separate their monopoly and competitive businesses.

Third, the Government would expect its electricity companies to earn a normal rate of return and make dividend payments. Similarly, in reviewing local distribution tariffs, the Ontario Energy Board would be expected to make an appropriate allowance for a normal rate of return. The Government proposes to consult further on the disposition of the earnings of the local utilities.

Fourth, the Government is proposing to phase out its guarantee on new debt incurred by the new commercial electricity companies, by the year 2000. It would continue to guarantee all previously issued Ontario Hydro debt, which will be held by a publicly-owned financial holding company. When complete, the phase out would mean that investments by the new companies are subject to the same capital market discipline as investments by privately owned companies.

Fifth, the Government is proposing that Ontario Hydro's successors be required to pay fair levels of property tax. Ontario Hydro currently makes payments in lieu of property taxes to local governments, but these payments in some cases fall significantly short of the tax that would be paid by a private utility. Under the proposal, any increase in payments in lieu resulting from a move to fair levels of property taxation would go to the Province, not local governments. This avoids creating unreasonable tax windfalls for a small number of local governments with very large electricity facilities. Local governments would continue to receive payments in lieu similar to those they currently receive.

Ontario Hydro to be Restructured with Clear Business Mandates

The Government proposes to introduce legislation to replace the *Power Corporation Act*. The legislation will provide for the reorganization of Ontario Hydro into three separate corporations: the Independent Market Operator, and two commercial companies, provisionally called the Ontario Electricity Generation Corporation (OEGC), and the Ontario Electric Services Corporation (OESC). The OEGC would take ownership of Ontario Hydro's generation assets, and would have a mandate to maximize their value for the taxpayers. The OESC would be a holding company with a number of businesses, including transmission, distribution, retail, and operating contracts. It would be required to keep its monopoly and competitive businesses separate from each other through an appropriate structure of subsidiary companies.

All the new entities would be given clear business mandates. OEGC and OESC would have the flexibility they need to make operating and investment decisions in each of their business lines, and would be free to engage in joint ventures and other strategic partnerships with both private and public sector companies. They would be expected to operate with a more efficient cost structure, a long term strategic plan, expert and committed staff, an employee incentive plan, and dynamic and skilled business managers. They would be required to make payments to the Province in lieu of corporate income and capital taxes, would have to go to the capital markets for new investment capital, and would pay a normal rate of return to their shareholder, the Province of Ontario. Income in excess of costs, taxes and dividends could be allocated in the best commercial interests of the companies. In short, the companies would be "corporatized", required to operate on a business-like basis, as were electrical utilities in New Zealand, Australia, Norway, and many other countries.

New governance structures would be created. The Government would exercise control through its role as owner and shareholder, focusing its attention on general policy directions and bottom line financial results. It would greatly reduce its involvement in the individual business decisions of the companies. As a responsible shareholder, the Government would establish expectations for performance, using such industry benchmarks as dividend yields, return on equity, interest coverage, capital ratios, and so forth. Management would be held strictly accountable for meeting the targets.

The Board of Directors of the generation company would decide on the appropriate internal structure for this corporation. However, given the especially difficult challenges involving the nuclear assets, the Board would be expected to pay due regard to any views the *Select Committee on Ontario Hydro Nuclear Affairs* may have expressed regarding the future organizational structure for the nuclear business.

As commercial entities, the new provincial companies would not have any oversight role in relation to the local distribution utilities. This responsibility would be assigned to the Ontario Energy Board. In addition, a working group would be established to study how best to organize the electrical safety and inspection activities currently carried out by Ontario Hydro.

The Government will consider options for the science and technology companies that it currently owns to ensure research and development capabilities in the electricity sector.

The Government and Ontario Hydro both recognize the importance of a confident and highly skilled workforce in ensuring a well-run electricity system. Ontario Hydro and its successors will be expected to work closely with employees and their bargaining agents as they move forward to design and implement restructuring.

The Government has considered a wide range of options for injecting greater business discipline into its electricity businesses. The proposed plan combines a number of effective techniques – market competition to exert pressure on prices and costs, separate corporate entities for transmission and generation to prevent conflicts of interest, an independent market operator to ensure fair competition and promote the growth of the market, commercial lending rates and tax obligations to level the playing field with private sector competitors, independent regulation of the Province’s local wires business to ensure fair prices, and defined, bottom line performance targets to ensure that the new companies maintain their business focus, while meeting safety and environmental standards.

As a result of the proposed restructuring plan, the new provincial electricity companies would have clear business mandates and a proper accountability relationship with the provincial government.

The New Companies to be Put on a Sound Financial Footing

The Government is also proposing measures to restore financial soundness at Ontario Hydro and the successor companies. The new electricity companies are expected to remain significant players in the Ontario electricity market once the market is opened to competition. However, they will no longer control the price of electricity, and will no longer be assured that their combined revenues will be high enough to allow them to continue to meet the repayment obligation to Ontario Hydro’s bondholders. In the absence of special provisions, opening the market could increase the risk to the Government and the taxpayer, since the Province guarantees the repayment of Ontario Hydro’s debt. Any debt that Ontario Hydro could not service as a commercial entity in a competitive market is said to be “stranded”.

In the Ontario context, a problem of stranded debt could be dealt with in three general ways: new efficiencies in savings through asset reorganization and improved management; a transitional mechanism to ensure that any stranded debt is paid off over time by electricity consumers; or assumption of stranded debt by the Government.

There are many variations and combinations within each of these general approaches. Other jurisdictions are experimenting with alternative recovery methods, but no consensus has emerged on which approach is best. It is clear, however, that different approaches would have different consequences for the provincial finances, and for Ontario businesses and households.

The first step in developing a recovery plan is to assess the magnitude of the potentially stranded debt. The *Advisory Committee* estimated Ontario Hydro’s potentially stranded costs to be in the \$10-\$15 billion range. The high estimate was derived assuming a 30 per cent drop in the price of electrical generation in an open market. Ontario Hydro, in its 1996 *Annual Report*, estimated its stranding risk at between \$10 and \$21 billion, and proposed a figure of \$16 billion for strategic planning purposes. Estimates by investment firms have been in the same range, but with some firms indicating either higher or lower amounts of stranded debt, depending on the assumptions used.

There is a high degree of uncertainty around these—and all—estimates of stranded debt. Many variables are involved in the calculations, and the results are highly sensitive to changes in the assumptions, especially the assumptions about price and electricity sales. Recent developments around nuclear costs and performance add further uncertainty, as does the issue of nuclear decommissioning.

Given the degree of uncertainty, it is essential for the Government to proceed cautiously with regard to the financial dimension of the proposed restructuring, and to retain the flexibility to adjust to changing circumstances. At the same time, the Government is aware of the need to provide as much rate certainty as possible to electricity consumers.

The Government has developed an integrated six step plan to put the proposed new companies on a sound financial basis, and to advance the public discussion about potentially stranded debt and the options for dealing with it.

First, the Government, as shareholder of the new companies, would ensure that they operate as efficiently as possible, and that the potential stranding problem is dealt with in the first instance through cost savings. As described earlier, the Government is proposing that Ontario Hydro be restructured into two commercial companies with new business mandates in order to improve business performance. The Government, on behalf of taxpayers, would insist that prudent assumptions are used in investment planning and budgeting, and that tough performance targets are met. The Government recognizes that cost reduction will be a major challenge, but it will nevertheless be looking for significantly improved cost performance in the years immediately ahead.

Second, the Government would encourage the new commercial companies to explore opportunities for new partnerships with both the private sector and the local distribution utilities. New partnerships are important because they bring new perspectives, new energy, new resources, and discipline to help get costs down. There are opportunities to contract work to the private sector and to lease generation and other facilities to new operators. There are opportunities for voluntary, commercially-oriented agreements between municipalities and the proposed new electricity services company. There are also opportunities for investment capital in the refinancing of the generation company and the provincial and local wires companies.

Third, the Government would dedicate all of the new payments in lieu of taxes to paying down stranded Ontario Hydro debt, as recommended by the *Advisory Committee*. This includes the payments in lieu from the local distribution utilities, as well as those from the new provincial corporations.

Fourth, the Government proposes to phase out its guarantee on new debt incurred by its commercial electricity companies by the year 2000. The Province would continue to guarantee debt previously issued under the guarantee. Phasing out the guarantee is an important step in restoring the financial health of the corporations because it makes investment decisions subject to a direct market test.

Fifth, the Government would, if necessary, introduce transition charges to address any stranded debt not eliminated through other means. There are numerous options for the transition charge, including a direct charge on customers, as proposed by the *Advisory*

Committee, and vesting contracts for generators. The Government has concluded that it would be premature to take a position on specific recovery mechanisms or amounts at this time.

The Government is, however, strongly committed to ensuring that any stranded debt is recovered in a manner that is clear and fair to all customer classes. Prior to introducing restructuring legislation, the Government will seek advice on the options for recovering potentially stranded debt and on the principles that should be applied in choosing a course of action.

The sixth action step would be to establish commercially acceptable capital structures for the new commercial companies. As part of the restructuring of Ontario Hydro, the Province will put in place commercial capital structures for the new companies through a debt for equity swap mechanism. The Province will then receive dividends in line with private sector norms.

The steps described above provide an indication of how the Government proposes to deal with the potentially stranded debt at Ontario Hydro, and to establish its new electricity companies on a sound financial footing. The Government's plan is clear, flexible and pragmatic. It ensures that the Province's credit rating is protected, and that electricity consumers in Ontario pay the lowest possible prices for their electricity.

The following table sets out the proposed legislation and implementation schedule for electricity sector restructuring.

Proposed Legislative and Implementation Schedule

1997	<p>Establish an advisory Market Design Committee to assist development of rules for the new electricity market. Require initial reports by spring 1998.</p> <p>Work with municipal utilities on rationalization.</p> <p>Establish interim supply market, allowing generators to compete to supply province's replacement power needs</p> <p>Begin consultation on options for recovery of any potentially stranded debt.</p>
1998	<p>Introduce legislation to replace the <i>Power Corporation Act</i>, put Ontario's successor companies and municipal utilities on a business footing.</p> <p>Introduce legislation to redesign Ontario Energy Board, with focus on establishing its role in overseeing the transition to open competition. Initiate design of new regulatory mechanisms.</p>
1999	<p>Support municipal segregation of wires and retail business, parallel to new treatment of the provincial electricity businesses.</p> <p>Licence agents, brokers and other market participants.</p> <p>Confirm technical readiness of all components.</p>
2000	<p>Introduce competition. All generators have access to transmission; customers will have full choice of supplier.</p>



CONCLUSION

The Government's plan for introducing competition into Ontario's electricity industry charts a course for competitive electricity and jobs in Ontario. It is an ambitious, but balanced and fair approach to reform. It is confident and forward looking. It builds on the recommendations of the Advisory Committee and the many thoughtful comments received from Ontario citizens.

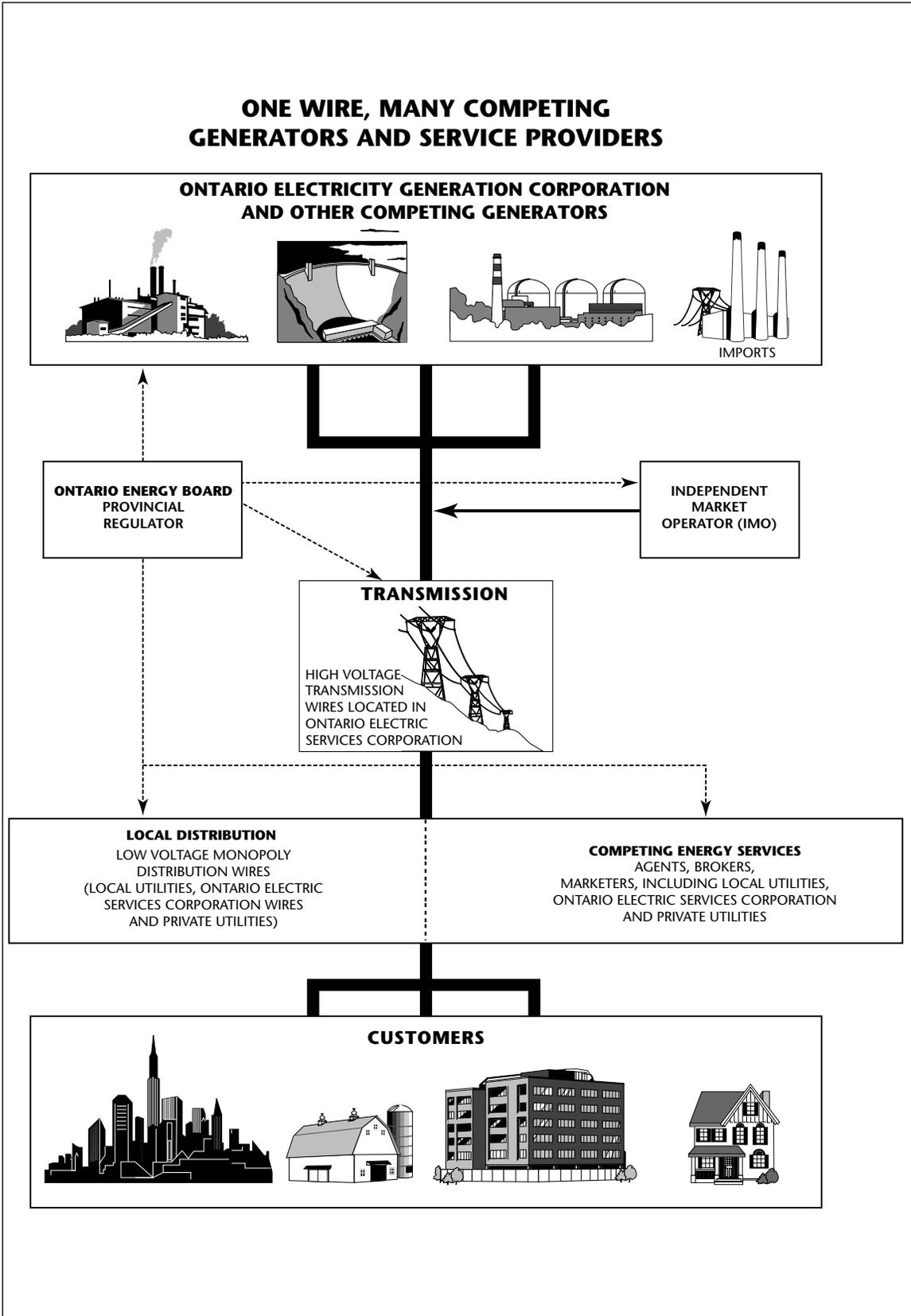
The proposed restructuring will restore the vitality and financial integrity of Ontario's publicly owned electricity system, increase opportunities within the electricity industry, improve reliability, safety and the environment, maximize benefits to electricity consumers and, most importantly, support investment and job creation across Ontario.

There is clearly a great deal of technical work to be done in drafting legislation and preparing to launch the proposed new institutions and companies. There are important decisions that still need to be made. The Government is committed to working closely with all the groups and organizations that make up the Ontario electricity industry, and with the people of Ontario, to ensure that change is implemented smoothly and effectively, and that remaining elements of the plan are developed in a continuing climate of full consultation and co-operation.

Through the independent Market Design Committee, industry representatives will have a role in designing the rules for the new market. An enhanced Ontario Energy Board will ensure that electricity customers have an ongoing role and advocate for ensuring fair prices and a healthy, competitive market. The Select Committee on Ontario Hydro Nuclear Affairs has been established to examine issues of nuclear safety, costs, and environmental impacts. The Government will consult on stranded debt recovery mechanisms. And it will continue to consult municipalities and local utilities on issues such as geographic rationalization and the implications for local utilities of moving to a more businesslike status.

In these and other ways, the Government will ensure that Ontarians have opportunities to comment and provide input every step of the way.





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Send written comments to:
Minister Jim Wilson
Minister of Energy, Science and Technology
Hearst Block, 4th Floor
900 Bay Street
Toronto, Ontario
M7A 2E1

