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Don't sign the Bruce lease!

Ontario gov't planning largest-ever giveaway of public assets

By Myron J. Gordon and John F. Wilson

Ontario Premier Mike Harris and Energy Minister Jim Wilson have assured us that the soaring electricity prices and blackouts in California will not come to Ontario. They say that 1) unlike California, Ontario has more than enough generating capacity to meet its own electricity needs; and 2) the privatization and deregulation of the industry here will not repeat California's mistakes.

Unfortunately, having enough Ontario electricity generation will help Americans, not Ontarians, and claiming that we are not repeating California's mistakes is a misstatement. Furthermore, there are a number of other compelling reasons why Ontario should not proceed with deregulating the electricity market.

Ontario taxpayers stand to lose tens of billions of dollars through deals like the current arrangement to lease the Bruce nuclear reactors. Electricity consumers, who are the same people as taxpayers, will see their electricity bills doubled. In addition, finalizing the Bruce lease could cause Ontario's electricity generation to be integrated with the U.S. market because of the requirements of the North American Free Trade Agreement (NAFTA)—regardless of the government's plan to delay the market opening.

Ontario now produces more than enough electricity to meet its needs. However, this will not be the case when the Harris government's Energy Competition Act (ECA) integrates the Ontario and American markets. T**his integration will force Ontarians to bid against wealthy, electricity-hungry Americans to buy their own Ontario-produced electricity. They will be in the same situation as Albertans, who must pay the same high price for the gas they produce (allowing for transportation costs) as the consumers of Alberta gas in San Francisco pay.**

Once the Ontario electricity market is opened, Ontarians will be forced to pay the same price for the electricity they produce as the consumers in Michigan and New York. Electricity prices in Michigan are 50% higher than the rates in Ontario, and New York prices are even higher.

Replicating California's mistakes

California's misguided deregulation rules are replicated in Ontario's ECA, which is now law. Like California, Ontario's ECA mandates 1) an Independent Market Operator (IMO) that runs an electricity market, 2) the forced sale of electrical generation, and 3) price caps. These are the very mistakes that analysts blame for California's high prices and blackouts.

1) Based on the prices that generators bid, the IMO sets hourly prices by matching supply and demand in the electricity market. Over the last year in California, hourly market prices have ranged from the U.S. average to more than 45 times that amount. Ontarians, after the government declares their market open later this year, will tie their electricity rates to their own IMO-managed market, which will include the roller-coaster pricing of the volatile American market.

2) **Like California, Ontario is forcing Ontario Power Generation (OPG, most of the old Ontario Hydro) to give away 60% of its generation to foreign owners. As in California, the buyers of OPG generation will pay little and make spectacular profits to send to their shareholders—not to Ontarians, who currently receive the money.** The first giveaway is the Bruce lease, which hands over 25% of OPG's generation to British Energy.

3) "[Energy Minister] Wilson said, (**Toronto Star**, Jan. 25) in insisting that rate-capping is not being considered

for Ontario: 'We don't want to get stuck in a supply crunch like California'." However, contrary to Wilson's assurances, his own government's legislation imposes a price cap for most of the electricity to be supplied by OPG for the first four years after deregulation begins.

Price caps in California are pushing utilities into bankruptcy by forcing them to sell electricity below its cost. Here the provincially-owned OPG will also be forced into bankruptcy.

Taxpayers lose big

On April 1, 1999, Ernie Eves, then finance minister, announced that all of Ontario Hydro's vast generating assets were worth only $8.5 billion, well below the $26 billion they cost the people of Ontario to build. **To facilitate privatizing OPG's generation by making the terms more attractive, Eves transferred $20 billion in Ontario Hydro debt to the government.** The provincial auditor, Erik Peters, has stated "...taxpayers may ultimately have to bear some of the financial responsibility for the outstanding debt." Because he is fearful that the interest and principal will become a burden on taxpayers, he wants to investigate how this debt will be serviced, but the government has not allowed him to go ahead.

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Eves should be well positioned to handle his personal share of the $1.5 to $2.0 billion dollars per year in interest and principal on the debt, as he is soon to become an executive with Credit Suisse First Boston, a huge multinational banking firm that manages mergers, acquisitions and privatizations.

OPG has the largest and finest diversified collection of hydro, nuclear and fossil-generating assets in North America. In **Policy Options**, a June 1999 article entitled "Don't Sell Hydro Short" by Myron J. Gordon demonstrated that OPG's generation could be worth $40.7 billion. This figure is based on the ongoing success of OPG's nuclear restoration program and on current electricity prices.

New management at OPG is restoring excellence to the operation of its nuclear plants. Their capacity is now much higher than it was just three years ago, and is steadily increasing. In addition, rising electricity prices will increase the $40.7 billion dollar value.

OPG can meet Ontario's demand for electricity and still export a large enough surplus to Americans to justify preserving a $40.7 billion asset for its present owners—the people of Ontario. **Ontario's enormously valuable generating capacity shouldn't be privatized at giveaway prices.**

The Bruce Lease giveaway

Many environmental arguments can be made for and against the operation of the Bruce nuclear reactors. We do not have expert knowledge on this subject, but, whether Bruce remains in operation or is shut down is not at issue in the Bruce lease. We can be sure that Bruce will remain in operation as long as the present supply situation continues. In fact, its continued operation is somewhat more likely once it is privatized. **If we ever want to shut it down for environmental reasons, foreign private owners will invoke NAFTA to demand compensation for the huge foregone profits on the asset that, ironically, they acquired at practically no cost.**

There is absolutely no credible argument for the forced privatization of this generation. The terms of the Bruce lease make it the largest giveaway in the history of Canada. The lease gives British Energy the right to control Bruce for at least 25 years or walk away from the lease at its pleasure.

This outrageous gift of 25% of publicly-owned OPG generation to foreign purchasers, together with the dollar value of the higher bills Ontarians will pay for Ontario electricity, amount to more than all the money that the Harris government is squeezing out of health, education, cities, child care, and other public services.The leaseholder, British Energy (BE), will pay a paltry $625 million and a small yearly rental payment.

Over the next five to eight years, BE will net an operating profit of $435 million per year if the Bruce output sells at

only 5% more than the current Ontario price for electricity generation. Profitable as this investment is, it is only the beginning. BE can refurbish the Bruce nuclear reactors at a cost of about $4 billion. Then the Bruce reactors can generate a clear profit of over $800 million per year for another 20 to 30 years, based on the current selling price for electricity.

However, the wholesale price of power in the northeastern U.S. is now more than double this figure. **At the current U.S. market price, the profit BE would enjoy for a mere $4 billion investment in Bruce could easily exceed $68 billion over the next 25 years.** Unbelievable, but true. **The New York Times** reports that nuclear plants in the U.S. are selling for 10 times their prices a year ago, and are being refurbished as needed.

What do the people of Ontario get in return for the higher taxes they will pay to service the $20 billion in debt and the higher prices they will pay for their own electricity? They will get an annual rental payment of $150 to $200 million—not even enough to cover the decommissioning costs of the Bruce reactors. That cost will remain with Ontarians.

In fact, if any problems arise with the Bruce, BE can simply walk away, leaving Ontarians to pay the required costs.

Secret agreements?

How does the government's price cap affect BE? OPG claims it has secret agreements whereby BE will sell Bruce electricity to OPG if the Bruce deal is finalized before the electricity market opens later this year. After the market opens, BE will be able to sell for prices higher than the cap that will apply to publicly- owned OPG electricity.

Energy Minister Wilson said (**Star**, Jan 25), "Given that we have the opportunity of learning from California and Alberta, and other jurisdictions, we are going to take our time."

While Wilson claims to be taking his time, OPG and BE are moving quickly to finalize the Bruce lease. OPG is also moving ahead with other privatizations. "Taking our time" is only possible if finalizing the Bruce lease or other planned privatizations do not take place, because NAFTA could require opening the Ontario electricity market to Americans once the first transfer takes place.

The government and OPG are silent on whether or not the Bruce lease or other planned privatizations will mandate American access to electricity generated in Ontario because of NAFTA requirements. An OPG executive has professed complete ignorance on this question. It seems that OPG and the government don't even have an expert legal opinion as to whether or not the Bruce lease or future privatizations would allow NAFTA to govern Ontario's electric power industry.

Allowing NAFTA to govern the opening and access to the Ontario electricity market is not a mistake that either the Ontario or Canadian government can fix once it happens.

There is a simple way to be sure that the California experience of soaring electricity prices and blackouts are not repeated in Ontario: **Don't sign the Bruce lease, and repeal the Energy Competition Act.**

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