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Sisters and Brothers,

Introduction

I want to begin by first expressing my sincere thanks and solidarity to the members of the CGT union along with my brother from Hydro Quebec, Richard Perrault, for inviting me to share my experiences with all of you concerning electricity deregulation and privatization.

My name is Bruno Silano and I am the President of the Canadian Union of Public Employees, Local One, which represents over 1200 workers at Toronto Hydro. Our membership covers every aspect of utility work from the skilled trades such as line worker and substation technician to electrical designers and call centre members. We have two collective agreements – one covering inside workers and one for outside workers.

Before I begin to describe to you our union's fight opposing electricity deregulation and privatization, I feel it is important to give a very brief overview of our union's situation within the Canadian context.

Canada is comprised of ten provinces and three territories. It has a population of over 31 million people, the majority of which live along our lengthy border with United States of America. Ontario is Canada's most populous province with over 11 million inhabitants and the City of Toronto is the country's largest, with just over 2.5 million people. Ontario has been referred to as the economic engine of Canada.

The electricity landscape across Canada is very diverse. Electricity falls under provincial jurisdiction not federal. Within the ten provinces the electricity systems are basically structured along two lines:

1. Publicly owned provincial monopolies that control generation, transmission and distribution.
2. Publicly owned, provincial monopolies that own the generation and transmission systems but the local or "low voltage" wires (usually 27.6kV and below) are separate companies owned and operated by the local municipality, county or township.

The province of Ontario falls into the latter arrangement. Therefore, Toronto Hydro is a municipally owned distribution company and our owner, on behalf of the residents of Toronto, is the City of Toronto.

To date, only two provinces have passed and actually attempted full-scale market based electricity pricing – Alberta and Ontario. The remaining eight provinces and three territories are at various stages; from full scale continued public ownership to others that are either still contemplating or in the process of deregulation and/or privatizing parts of their electrical infrastructure. This, despite Alberta, and to a greater degree Ontario's, disastrous experience with electricity deregulation.

The Ontario context

The province of Ontario has a long and proud tradition of publicly owned electricity systems dating back to 1906. The system was structured along the lines of one company that was responsible for generation and transmission known as Ontario Hydro, followed by a large number of local or municipal distribution companies that at their peak numbered over 300.

In Ontario, the lead up to the electricity deregulation becoming provincial law was quite predictable. By this I mean there is indeed a pattern that is employed by those who seek to profit from electricity. For example,

- Competition would reduce rates. To create competition the existing provincial utility needed to be broken up into separate and distinct companies and at the local or municipal level consolidation was needed to achieve so-called economies of scale.
- An electricity retailing market was required to bring in the new era of "customer choice" (concept of electricity as a commodity) and the much needed electricity infrastructure investment.
- The government could no longer afford to spend taxpayer money for new or upgraded expensive generation and transmission systems, and there were the usual calls from the conservative right and the business community warning us that the debt carried by provincial utility, Ontario Hydro, was far too great.

In Canada, we are unfortunately heavily influenced by what goes on south of our border. In the mid-90's electricity deregulation was the latest fad that seemed to be taking hold throughout the United States. In Ontario our decline began with the election of a conservative government in June of 1995. Shortly thereafter the government commissioned several documents which had a pre-determined conclusion to confirm their case for deregulation, competition and privatization.

The plan in Ontario was based on consultant's input from the poster child of deregulation at the time - Enron. In Ontario there was virtually no opposition to deregulation except for a few relatively small labour unions, which included CUPE Local One. Even the environmentalists were on side because they believed that opening up the generation market to the private sector would lead to more green power producers.

On November 1st, 1998 the legislation proclaiming electricity deregulation became law. However, it then took almost four years before the government actually opened the electricity market on May 1st, 2002. During that time much happened.

The provincial utility was broken up into five companies:

Ontario Power Generation – responsible for the production of electricity which included nuclear, fossil fuel and hydroelectric plants.

Hydro One – responsible for the province’s transmission grid including some rural low voltage distribution.

Independent Electricity Market Operator – responsible for matching demand with supply and the commodity price of electricity

The Electricity Financial Corporation – responsible for administering the former utilities debt

Electrical Safety Authority – responsible for approvals and permits for new or upgraded electrical services.

At the municipal level there was extensive consolidation as the local distribution companies were reduced from 307 to the present day total of 94. It should be noted that much of this was due to the provincial wires company, Hydro One, purchasing 85 municipal utilities. Moreover, those local utilities were forced to restructure to comply with the newly created regulations. As such, local utilities had to become incorporated and operate in a more private sector, business-like fashion. Entire sections or departments had to be established as separate companies. For example, our electric water heating, marketing and energy conservation departments became part of a retailing company. Street Lighting and Telecom were also required by law to become separate affiliate companies. The result was that senior executives’ salaries and bonuses ballooned as unions faced heavy pressure at the bargaining table to accept concessions and takeaways. In fact, our union faced a huge struggle with Toronto Hydro to get them to agree that those members were still represented by Local One.

Thousands of pages of new regulations were written which was referred to as the “re-regulation” of electricity. These changes continue to have a severe impact on the operation of the utilities. The most serious of which is called “Performance Based Regulation” or PBR. The goal of PBR is to drive “efficiencies” into the distribution or wires company. In explanation, costs had to be reduced on a year over year basis; local utilities had to meet minimum service level and quality indicators. The result was that over 16,000 good, quality jobs were eliminated through various forms of downsizing. The most common method used by utility management was the “golden handshake”. This is where workers are enticed to either voluntarily quit or retire for a lump sum of money based on year’s service with their employer.

The provincial government also began privatizing some generating stations. Included in the sell-off was the lease of the Bruce Nuclear Reactors to the multi-national company, British Energy, and the sale of some northern Ontario generating stations to a company called Brascan which just happened to be one of the government’s largest financial contributors.

The government also set an initial date for the market to open in November of 2000. However, this date was far too premature as many of the electricity companies were not ready. They had not installed the expensive and sophisticated computer software to track transactions when a customer switches electricity providers. The government then set the date for the fall of 2001.

This is when things started to go wrong or right depending on which way you look at it. In the fall of 2000, the province of Alberta, which is Canada's most energy rich province, began to experience huge rate spikes as demand for electricity climbed. In January of 2001, the state of California experienced rolling blackouts, huge price volatility and utility bankruptcies followed by allegations that private producers manipulated the electricity market.

The fightback begins

It was during this time that a small group of CUPE Local One members began considering the possibility of establishing some sort of opposition to the government's deregulation agenda. We thought we had only six months or so to try and stop the market from opening. I want to stress that this was, to say the least, a very ambitious goal for a number of reasons. Firstly, our union is only a local or municipal union. Our significantly larger provincial union with over 12,000 members was the union that should have taken on and led this fight but they were in fact supporting deregulation.

Secondly, privatization and deregulation, despite what had happened in Alberta and California, seemed unstoppable. The provincial government was determined to forge ahead with its ill thought out scheme.

Create an opposition

As such, it was decided very early on that the best way to attack the government was to create an opposition coalition. The first step was to identify and gather our allies, which included like-minded labour unions from both the private and public sector, concerned citizens, environmental and ratepayer groups and academics. To our pleasant surprise there was interest amongst these groups to establish an opposition, grassroots coalition.

On September 10th, 2001 at our inaugural meeting the Ontario Electricity Coalition (OEC) was founded. It was decided that the OEC would be a single issue, non-partisan coalition.

Naturally, very little can get done without money and if our local was going to lead this fightback then we would have to lead by example. We received approval from our membership to give \$50,000 (CDN) to the OEC and asked that others contribute what they could. This seed money was used to pay for our first leaflet. The theme of the leaflet was "*Can you afford to pay double for electricity rates*" (copies provided) which was based on questioning the government's cornerstone claim that rates would come down.

The Coalition also produced a very practical and concise "Organizers Guide" (copies provided). A basic information website was created. Local and toll free telephone lines

were created. Our local donated space to the OEC to use as its office and mailing address.

Then the Coalition caught a huge break - as the OEC was preparing to officially announce itself to the public, the Enron scandal commenced in October and November of 2001. It put the provincial government on the defensive and there were rumours circulating that the opening of the market would be further delayed. When the OEC finally did go public it was a success as we received positive media coverage and quite a bit of public interest.

Approximately two weeks later the Coalition suffered a substantial setback - the outgoing Premiere announced in December 2001 that the electricity market would open on May 1st, 2002 and that the government would privatize the provincial transmission company, Hydro One. The privatization of Hydro One was worth an estimated \$5 billion (CDN), making it the largest privatization in Canadian history. Financial institutions stood to gain an estimated \$200 million (CDN) in commission fees for handling the expected Initial Public Offering (IPO).

In January 2002, the OEC decided that the best way to attack the government was to go to the people of Ontario. To give the Coalition credibility and establish itself as a truly provincial organization we would need to establish "chapters" throughout the province. To achieve this a provincial tour would take shape where OEC spokespersons would go to small towns and communities and hold town hall meetings.

The OEC message was twofold:

1. Establish an OEC chapter in your town or community and,
2. Get your local city council to pass a resolution demanding the provincial government scrap it's plan to open the market and the privatization of Hydro One.

CUPE Local One approached our National Union for much needed financial assistance. The National agreed and provided us as much support as possible.

One of our key spokespersons was a member of our union, a line worker by trade, Brother Paul Kahnert. He alone visited over 50 towns and communities in Ontario organizing citizens on the ground. Wherever he went an OEC chapter was created. By March of 2002, the OEC had over 40 chapters established and many of these cities and towns had passed resolutions condemning the government for their actions. The media response was also very favourable. The OEC had achieved its initial goal of creating an opposition to deregulation.

The Hydro One story

The OEC continued to strategize at regular meetings throughout the winter months. A lawyer that is an expert on trade issues approached the Coalition to see if there was interest in trying to stop the sale of Hydro One through the justice system. Two national unions and the OEC took up the cause. In late March 2002, an injunction was issued on behalf of the unions, which stated that the government did not have the legal

authority to sell Hydro One. The lawsuit created quite a stir in the media but many so-called experts felt there was not much chance of success. However, on April 19, 2002 a judge agreed with the unions. The largest privatization in Canadian history had been defeated.

Public opinion polls revealed that an overwhelming majority of Ontarians opposed the sale of Hydro One.

The market opens

On May 1st, 2002 the Ontario electricity market commenced operation. The price of electricity was no longer regulated but instead based on what was called the “spot market” price. The price soon began to fluctuate wildly from hour-to-hour. Over 3 million ratepayers that did not “lock-in” or sign a contract with an electricity retailer soon discovered that their bills had more than doubled. One of the OEC’s main predictions had come true. As the new bills arrived at people’s homes and apartments, ratepayers were shocked and angry with the government, especially business people who were some of their key supporters.

The weather also played a huge role. The summer of 2002 in Ontario was one of the hottest on record with more than thirty days where the temperature, combined with the humidity, reached 40 degrees Celsius or more. Add to this the fact that there were problems with generation capacity and the price for electricity on many days soared to more than ten times the regulated pre-market price. On some days expensive electricity had to be imported from the states of New York and Michigan. Fossil fuel plants such as coal worked at capacity in a frantic attempt to keep up with demand. The result was a record number of smog days. It is unknown how many deaths were directly attributable to pollution but some medical experts say the number is in the hundreds.

The result was that major industries could not cope with unpredictable and volatile electricity prices. Some industries decided to take drastic action. For example, workers were advised that the plant would be operational only during the night shift when the price for electricity was the cheapest. Others simply shut down for the summer while some considered moving their operations out of Ontario to neighbouring Quebec or Manitoba which has some of the lowest regulated electricity prices in the world.

During this time the OEC continued to organize opposition on the ground. Our coalition continued to gather momentum and tried as much as possible to fan the flames of discontent. Many residents were angry with aggressive electricity retailers either phoning or going door-door and using fear tactics to try to get ratepayers to sign contracts. Even those people that did sign contracts were shocked to learn that the contract they signed with a retailer was in most cases at least 25% higher than what they were currently paying. Overall the public was outraged and they wrote letters and telephoned the Premiere and government officials. The OEC contemplated other potential lawsuits in an effort to discredit the government’s electricity policy.

The market closes

The government made a startling revelation over the deep political trouble created by the electricity mess. On November 11th, 2002, a little over six months from when the

market opened, a sombre looking Premiere announced that he was closing the electricity retail market. Another key victory for the OEC.

It was then only a matter of time before a provincial election would be called. The OEC set its sights on the election and began to strategize on electing a pro public power government. But the government continued to delay the election for various domestic reasons.

However, with potential for Blackouts looming in the summer of 2003, the government leased small portable generators at a cost of \$100 million (CDN). The portables demonstrate once again that their electricity privatization and deregulation program has failed. It is a temporary fix for our supply problems. This is a problem that up until last summer the government said didn't exist. It is also a sign that the government is focused on winning the next election rather than addressing our Blackout risks.

The Blackout

On August 14th at 4:09 p.m. Eastern Standard Time, the biggest Blackout in North American history occurred. More than 50 million people were without power and modern civilization with all its furious activity came to a sudden halt.

The results of the Blackout were paralyzing – thousands of people were trapped in subways and elevators, traffic chaos quickly ensued as the signal light system did not work, the Internet was rendered useless as computers shut down, many cell phone systems became inoperable, motorists were unable to even obtain gas as the gasoline pumps did not work without electricity. Needless to say air conditioners and fans no longer worked. Hospitals, homes for the aged and water filtration ran on diesel generators but the amount of diesel fuel quickly became a concern if the Blackout went on for any substantial length of time.

The people of Ontario were left with many questions: How did it happen? Were there any warnings? What was the government of Ontario's plan? What were the root causes and contributing factors? Why did it take the province of Ontario so much longer to restore full power?

How did it happen?

The problem started in the United States in Ohio and spread into Pennsylvania, New York and then Ontario. It's important to note that all these jurisdictions are deregulated or for profit markets. Vermont and Quebec are not deregulated and were not blacked out. It's difficult to know if the truth will ever come out. In Ontario, the investigation is not impartial nor is it independent. The government's lead investigator was a past Chair of Hydro One. The OEC is stating that this is a conflict of interest. It's like having a burglar investigate his own break-ins. The Ontario Electricity Coalition calls for an independent public inquiry, including full protection for utility employees.

Were there any warnings?

A full 20 months before the massive Blackout occurred, the Ontario Electricity Coalition published a pamphlet which stated, "... *deregulation and privatization of electricity would leave*

Ontarians with: No protection from soaring electricity rates, no protection from blackouts and brownouts, no protection from even more pollution.”

Approximately 500,000 copies were distributed around Ontario before and after the market opened. Unfortunately, all of the above came to fruition. On July 15, 2003 a newspaper editorial by an OEC member was entitled “Tories must act on blackout risk”. In it he stated *“The Blackout risk is high in Ontario. We no longer produce enough electricity to meet our needs during heat waves. This is because the Tories eliminated conservation programs launched a decade ago by the former NDP government. And, for the last eight years, the government has stopped building electricity supply.*

“Our electricity system operator has stated on several occasions that supply is barely keeping up with demand. This summer the market operator’s figures show inadequate reserves.”

Deregulation and privatization in the U.S. over the last ten years has not resulted in any increase in the supply margin. Those supply margins have in fact been greatly reduced, because the lower the margin of supply, the greater the price and profits.

A Blackout this summer during a heat wave is also a public health emergency. During a heat wave in Chicago in the summer of 1995, electricity blackouts contributed to over 700 deaths.

*Three watchdog groups, Midwest Independent System Operator, Pennsylvania Jersey Maryland, and Southwest Power Pool in the U.S. warned of *“cascading outages”* months ago. In their jointly prepared document they stated *“A voltage collapse or stability problem has the potential to cause cascading outages and therefore must be closely co-ordinated (planned) to maintain reliable operations.”*

*(Source Toronto Star 08/18/2003)

The government went into damage control mode and has stated that the Blackout was a very unusual event. It’s not. Around the world there has been an increase in Blackouts in deregulated markets. In 1998 in Auckland, New Zealand there was a devastating Blackout, which lasted 30 days after they deregulated. That Blackout was linked to a substantial decrease in maintenance and new construction. By 1999 big Blackouts and Brownouts were starting to plague the deregulated markets of New York, New Jersey, Pennsylvania, Maryland, Illinois, Arkansas and Louisiana. Everyone knows about the Blackouts in California in 2000 and 2001.

It was proven that the Blackouts in California were caused by market manipulation by Enron and not by equipment failures. It is interesting that the Blackouts and price spikes stopped immediately after the California Power Authority put retail deregulation on hold.

What was the Ontario government’s plan?

There have been supply shortages and Blackout risks in Ontario for more than a year. During the California crisis the Governor there had a plan. The Governor’s office worked with state and local agencies to mandate reduced electricity demand when load reached critical levels. The Ontario government should mandate that unnecessary load

is cut when supply is tight and the potential for Brownouts and Blackouts are looming. The California government told people how to prepare for and operate during Blackouts by providing information about refrigerated medicine, life-support systems, food processing, traffic control, fire and security systems, emergency generators and avoiding heat stroke. The information-protected lives and helped restore power faster after the Blackouts occurred. People's lives shouldn't be placed at risk because of incorrectly hooked-up and operated backup generators.

The government ignored the warnings. By not acting, by clinging to deregulation and privatization, the government took unnecessary risks with our lives and livelihoods.

What were the root causes and contributing factors?

Deregulation left us vulnerable in a number of ways. Deregulation's main purpose is the introduction of profit making into a system and the maximization of those profits.

Electricity is unique, it cannot be stored or stockpiled and, as has been shown around the world, is very susceptible to market manipulation.

In deregulated electricity markets, supply margins are kept low so that prices and profits remain high. Low supply margins are very risky. This grid has been called "the biggest machine ever made by human beings". This complex system requires a planned and steady maintenance schedule. For example, switches must be checked, maintained, adjusted, opened and greased at least once a year. Maintenance in deregulated markets has been cut excessively to capitalize on profits.

Electricity deregulation across North America has resulted in the loss of more than 160,000 jobs to increase profit margins. (More than 16,000 skilled workers in Ontario alone). Ontario was left vulnerable because of our integration with the U.S. market, which is an inevitable outcome of deregulation. The OEC is advocating that electricity should not be flowing north and south; but rather we should be building east and west with Quebec and Manitoba. We should be building a Canadian grid serving the needs of Canadians. Deregulation has also resulted in large transfers of electricity over long distances to create increased profits. The lines that make up our transmission system weren't designed for this heavy traffic.

Why did it take Ontario so much longer to restore full power?

The simple answer is that Ontario continues to have a supply problem. Some of the reasons have already been outlined above. There are technical reasons as well but they all relate to the lack of supply and the lack of a plan to deal with such a major Blackout. Over the last decade, the increase in consumption of electricity has outpaced additions to supply by about two to one. This means that on a hot or cold day when a line or plant fails there is often no backup line or supply capacity to meet the load. Deregulation has cut investment to the point where both Ontario and New York State are relying on portable natural gas generators to meet peak loads. Deregulation promised to solve our power problems, it only made them worse.

How are we going to dig ourselves out of this mess?

Conservation is the cheapest, fastest and cleanest way to solve our electricity and smog problems. Conservation measures can be immediately implemented and is 1/10 the

cost of building new power plants. Why doesn't the government legislate conservation measures? Because energy conservation programs are not popular with private energy companies. In the words of the Canadian Electrical Association: *"In a competitive generation market, energy efficiency is no longer a reasonable activity for wholesale electricity retailers. Who would want to sell less product?"*

In a recent book entitled "Public Power" it has a quote in it which reads, *"Private electricity companies are about as interested in conservation as Exxon is in bicycles."* Legislating real conservation measures would greatly anger the private energy companies that support our present provincial conservative government. Real conservation reduces demand, lowers electricity prices and hurts profits and the electricity "market".

Ontario should import some of the solutions implemented in California. They reduced demand in a single year by 12% or 3600 megawatts almost equal to the peak output of a nuclear plant. They did it at 1/10 the cost of building new supply by instituting the 20/20 plan. Cut your power demand by 20% and the state government would cut your bill by another 20% for a reduction of 40%. They gave 180,000 fluorescent light bulbs in low-income neighborhoods, real rebates on energy efficient refrigerators, instituted new insulation and building standards. Green electricity must also be allowed and a renewable portfolio standard must be legislated.

Like California, we should close our electricity market. We should stop the sale of our electricity system, re-regulate electricity rates and make sure we have enough supply inside Ontario so that we can disconnect from the U.S. when there are problems. We should use conservation and efficiency programs that reward consumers for cutting demand. We should build clean new supply such as generation using Niagara Falls and many of Ontario's rivers.

We won't be breaking new ground with conservation and clean power, this has already been done by many European countries and regulated American states. The Blackout investigation results may help us fix control devices, equipment and operating procedures. But we also need to re-regulate our electricity to reduce the risk of Blackouts by making our electricity system less fragile and less vulnerable.

This means that Ontarians need to know where our political parties stand on deregulation.

Our homes, hospitals, schools, businesses, industries and tourist trade all need reliable electricity to meet our needs. It is impossible to protect the environment under a for profit electricity market. It is impossible to have lower hydro rates when deregulation adds in profits to generators, profits to distributors, profits to retailers, dividends to investors and commissions to commodities brokers.

It is also impossible to have Canadian democratic control over our electricity system when it becomes completely integrated with the U.S. market. Deregulation has such a dismal record that 22 states have now shelved plans to deregulate. Even the World Bank is having doubts about electricity privatization. The OEC says let the people

decide. Will electricity be public or will it be private? Now is the time for you to speak up and to blackout those politicians who won't listen to you.

Conclusion

Sisters and brothers today I bring to you a message of hope. Electricity deregulation can be defeated. Deregulation has not worked anywhere in the world and won't work in your country, province or territory. All it takes is a relatively small number of committed people. If we do not act to stop it then it is our children and grandchildren that will suffer and they will ask us, "What did we do to stop it?" It would be terrible if the answer was "nothing". It's time that electricity deregulation and privatization was scrapped once and for all.

Respectfully submitted,

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