

REGIONAL MUNICIPALITY OF OTTAWA-CARLETON
 MUNICIPALITÉ RÉGIONALE D'OTTAWA-CARLETON

REPORT
RAPPORT

Our File/N/Réf. 03-02-98-0025
 Your File/V/Réf.

DATE 9 April 1998

TO/DEST. Corporate Services and Economic Development Committee

FROM/EXP. A/Committee Co-ordinator

SUBJECT/OBJET **FUTURE NEEDS AND ORGANIZATION OF ELECTRIC
 POWER SUPPLY AND DISTRIBUTION IN OTTAWA-
 CARLETON**

REPORT RECOMMENDATION

That the Corporate Services and Economic Development Committee recommend Council establish a Committee to review the future needs and organization of electric power supply and distribution in Ottawa-Carleton on the following basis:

- a) **Membership: one appointee from the RMOC, each local hydro utility and Ontario Hydro, and one regional appointee, Councillor W. Stewart, as chair;**
- b) **Support: central support to be supplied by the RMOC with technical assistance from the local hydro utilities, as required;**
- c) **Timing: preliminary report, at least, to be submitted to the Corporate Services and Economic Development Committee and the local utilities by September 15, 1998.**

BACKGROUND

At the Corporate Services and Economic Development Committee meeting of 7 April 1998, Councillor P. Hume presented the attached Notice of Motion and supporting material for Committee consideration and recommendation to Council.

Approved by
M. J. Beauregard

Attachs: (1)

Notice of Motion

Moved by: Regional Councillor Peter Hume

WHEREAS the Macdonald Committee Report of electric power generation and distribution in Ontario recommended, inter alia, the consolidation of local distribution systems and the development of a competitive market for electricity;

AND WHEREAS the White Paper entitled "Direction for Change - Charting a Course for Competitive Electricity and Jobs in Ontario" issued by the Minister of Energy, Science and Technology, reviewed the Macdonald Committee recommendations and also favours a move to a free market economy for electricity and a revised system for its supply and distribution;

AND WHEREAS there is considerable interest in Ottawa-Carleton in a review of local power supply and distribution systems to serve the commercial and residential needs of Ottawa-Carleton for the long-term future as an aspect of restructuring the local government service delivery system for the Region.

NOW THEREFORE the Corporate Services and Economic Development Committee recommends to Council the following;

That the Regional Municipality hereby establishes a Committee to review the future needs and organization of electric power supply and distribution in Ottawa-Carleton on the following basis:

- a) Membership: One appointee from the Regional Municipality of Ottawa-Carleton, each local hydro utility and Ontario Hydro; and one Regional appointee, Councillor Wendy Stewart, as Chair.
- b) Support: Central support to be supplied by the Regional Municipality of Ottawa-Carleton with technical assistance from the local hydro utilities, as required.
- c) Timing: Preliminary Report, at least, to be submitted to Corporate Services and Economic Development Committee and the local utilities by September 15, 1998.



OTTAWA HYDRO

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Chair
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 L. D. Cross
 Ron Kolbus
 Carl F. Kropp, P. Eng.
 Wil G. Barber, CMA

President
 Vice-president
 Councillor
 Directeur général
 Ingénieur en chef
 Secrétaire-trésorier
 Directeur des finances

March 11, 1998

MAR 16 1998

Ms. Grete Hale
 Ms. Diane Desaulniers
 Co-Chairs
 The Citizens' Panel on Local Governance
 In Ottawa-Carleton
 603-251 Bank Street
 Ottawa, Ontario
 K2P 1X3

Dear Ms. Hale and Ms. Desaulniers:

RE: "ONE MUNICIPAL ELECTRIC UTILITY IN OTTAWA-CARLETON"

Enclosed herewith, 15 copies of our submission to the Citizens' Panel under the above noted title.

In our view, amalgamation of the six local electric utilities in Ottawa-Carleton into one "Stand Alone" electric utility with locally appointed board members will provide the customer with the best service, rates and reliability of supply well into the next century.

As indicated in our submission, competition and market forces will be the new order for the electric utility industry in Ontario by the year 2000. One "Stand Alone" amalgamated utility is best suited to survive in this new order. This is the strategy being followed elsewhere in the province and is the preference of the provincial government. With the introduction of competition and market forces, electricity supply will stand apart from other municipal services.

We note that our one amalgamated electric utility proposal is consistent with your OPTION 1: "Single Municipality" and your OPTION 2: "Two Levels of Municipal Government".

We would suggest in your OPTION 3: "Multiple Municipalities", that "Electricity" be moved to "Planning and Service Corporations". In addition to the advantages pointed out in our paper, drawing of new municipal boundaries would not be confounded by having to carve up the existing utilities which could lead to technical problems.

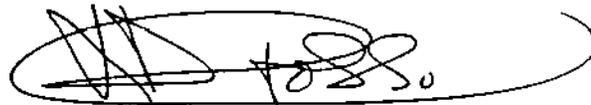
We have also included for your convenience:

- An Ottawa Citizen Editorial of January 20, 1998, "We Need a Regional Hydro Plan" which is consistent with our proposal.
- Ontario Government White Paper "Direction for Change - Charting a Course for Competitive Electricity and Jobs in Ontario".
- Ottawa Hydro 1996 Annual Report.

We would be pleased to appear in front of your committee to answer any questions or to provide further details.

In the alternative, you may contact our General Manager, Mr. Carl Kropp, at 738-6401.

Yours truly

A handwritten signature in black ink, enclosed within a large, hand-drawn oval. The signature is stylized and appears to consist of several overlapping loops and lines.

Vice-Chair

We need a regional hydro plan

Now is the time to create a regional power company that can respond quickly to crises and allow residents of the capital region to turn their lights on at a reasonable cost.

There is a hodgepodge of hydro commissions here. Utilities in Ottawa and Kanata are run by appointed boards. In Nepean, Gloucester and Goulbourn, hydro commissioners are elected, though the exercise is a joke because voters haven't the foggiest idea how one commission candidate differs from another.

Many people assume that the future of the utilities will be determined by the citizens' panel on local governance which is promising cheaper, simpler local government. The region should push ahead with a single utility regardless.

The ice storm has made clear the interdependence of communities, especially on the power front because the electricity system is a network where municipal boundaries mean little. Having separate utilities may help municipalities define turf but that's about all. If there is one thing we have learned in this region over the last two weeks, it's that neighbour must and will help neighbour to get through a crisis. Some hydro commissioners say citizens call them when the lights go out. Those citizens would be better off calling the hydro office, where people can actually do something about a blackout.

It's great that people in Gloucester and Nepean are proud of their power services. However-

er, it's absurd to suggest that a homeowner in a place like Orléans will suffer a loss in quality of life because he must call an office in Ottawa when the lights go out. Anyone who has called a regional-government service, such as garbage, knows the people answering the phones are from the same planet, just as courteous and informative as other local government workers.

The power marketplace is changing. The Flaris government is committed to creating a free-wheeling marketplace, where suppliers compete for business, instead of Ontario Hydro being the monopoly supplier. A power-transmission company and local utilities will charge power producers — perhaps including cities and companies that develop their own generating systems — to distribute electricity to customers.

In its white paper on electricity, the government didn't insist that utilities merge but it said there are efficiencies to be found and the 300-odd utilities in the province should get moving.

A regional utility would enjoy the best managerial talent of the existing companies and have the resources to recruit more expert talent to handle the important task of juggling supply and demand. With Ontario Hydro no longer making all the decisions about supply and demand, expertise in this area will be vital.

This region, with a population of roughly 720,000, is not so big that a utility serving the community is going to be huge, bureaucratic and money-wasting. In fact, there will be

economies that can be made and it is foolishly pessimistic to assume costs must rise.

A regional utility will be able to find supply and price deals that smaller players cannot. Metro Toronto is merging six hydro utilities as we just start thinking about it. Rest assured that the mighty, merged Toronto player will be hunting for bargains. An Ottawa-Carleton utility with 260,000 customers would at least be on the same playing field as Toronto's utility, with 650,000 customers.

At the same time, homeowners and businesses in the region will be able to sign contracts with electricity brokers or independent power generators who can give them a better price than the regional utility. Though a single utility, it will not be a monopoly supplier.

This leads to a final thought. Ottawa-Carleton's new regional power company should be just that, a stand-alone, non-profit company, not a department of regional government. It's tempting just to fold the regional utility into the arms of the region to save on administrative costs.

The trouble with that approach is that governments are governments. In this new environment, the utility must make decisions quickly. Also, there is a danger, in a utility run directly by government, that revenues will be siphoned into the tax pool. While the utility's commission would be appointed by elected local councilors, the enterprise would have to be about delivering power and nothing else.



OTTAWA HYDRO

"ONE MUNICIPAL ELECTRIC UTILITY IN OTTAWA-CARLETON"

**A SUBMISSION TO
THE CITIZENS' PANEL ON LOCAL GOVERNANCE
IN OTTAWA-CARLETON**

JANUARY, 1998

ONE MUNICIPAL ELECTRIC UTILITY IN OTTAWA-CARLETON**INDEX**

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ONE MUNICIPAL ELECTRIC UTILITY IN OTTAWA-CARLETON

EXECUTIVE SUMMARY

Municipal restructuring in Ottawa-Carleton together with the introduction of competition and market forces to the electric utility system in Ontario, all by the year 2000, begs the question, "How ought the electric utilities of Ottawa-Carleton be organized to best meet the existing and, in particular, the future needs of the residential and commercial customers?"

Because of their limited human and financial resources and expertise, smaller utilities will be hard pressed to compete successfully. Larger utilities are already being created in Ontario through municipal restructuring and amalgamation.

One stand-alone municipal electric utility in Ottawa-Carleton governed by a Commission would be best suited to meet the needs of the local residents and businesses well into the 21st century.

Time is of the essence!

ONE MUNICIPAL ELECTRIC UTILITY IN OTTAWA-CARLETON

1. INTRODUCTION

Electricity distribution in the Regional Municipality of Ottawa-Carleton is provided by six electric utilities - Ottawa Hydro, Nepean Hydro, Gloucester Hydro, Kanata Hydro, Goulbourn Hydro and Ontario Hydro Retail. (Ottawa Hydro also supplies the City of Vanier and the Village of Rockcliffe Park).

Ottawa Hydro is by far the largest supplying about half of the residents in Ottawa-Carleton and is over three times larger than the next largest utility. Ottawa Hydro is also unique in that it has some 12,000 kilowatts of local generation capacity.

Municipal governance of the region is expected to change by the year 2000 at the latest. Within the same time frame, the entire electric utility industry in Ontario will be reorganized as outlined in the Provincial Government's White Paper "Direction for Change - Charting a Course for Competitive Electricity and Jobs in Ontario".

Accordingly, it is reasonable to ask, "How ought the electric utilities of Ottawa-Carleton be organized to best meet the existing and, in particular, the future needs of the residential and commercial customers?"

Before answering this question, it is important to understand the structure of the existing electricity system and how it may evolve in the future.

2. THE EXISTING SYSTEM

The corporate structure is dictated by two provincial acts, the Power Corporation Act and the Public Utilities Act.

Ontario Hydro generally has the responsibility for the generation and transmission of electricity. The first right to distribute electricity is given to the municipalities and should they choose not to exercise this right or if there is no municipality, Ontario Hydro becomes the supplier of last resort.

In 1997 there were 307 municipal electric utilities supplying 2.8 million customers (75% of the total). As of January 1, 1998, the 307 utilities were reduced to about 280 due to amalgamation and municipal restructuring. This number will be further reduced in 1999 due to municipal restructuring. These municipal electric utilities range in size from about 100 customers to 650,000 customers.

The new mega-utility in Toronto has some 650,000 customers. Ottawa Hydro is the third largest with 140,000 customers. By comparison, most other municipal electric utilities are quite small with the average number of customers being about 8,000. Generally, as municipal restructuring continues, larger utilities will result.

Ontario Hydro supplies the remaining 950,000 customers through eight so called regional distribution utilities which have little autonomy. This structure is also under consideration for revision. By law, the rates of some of these Ontario Hydro customers are subsidized by the municipal electric utilities to maintain a reasonable rate differential between the "rural" and municipal utility customers.

The municipal electric utilities purchase their electricity at common wholesale rates from Ontario Hydro who claim an exclusive right to supply and then resell it at retail rates to their respective municipal customers. The municipal retail rates vary across the province and are regulated by Ontario Hydro. These rates are designed to recover local costs as well as the cost of the wholesale electricity. Municipal electric utilities must operate at cost, without profit, and can not derive any benefit from taxes.

Ottawa Hydro's retail rates are one of the lowest in the province and our commercial rates are well below the average. These favourable rates result from a tradition of prudent management and a competent and well trained staff.

Wholesale rates charged to the municipal utilities are based on Ontario Hydro's pooled costs to operate their generation and transmission system and are identical for all municipal electric utilities. In general, about 70% of the cost of electricity is for generation, 15% for transmission and 15% for distribution. Ottawa Hydro's distribution costs are only about 9% of revenue which is one of the lowest in Ontario.

It may be of interest to note that Ontario Hydro was created in large part due to pressure from a few municipalities in southern Ontario some 90 years ago to take advantage of provincial generation resources. Some maintain that Ontario Hydro holds the system in trust for the municipalities. Notwithstanding, in recent years, Ontario Hydro has been taking advantage of its position to compete with the municipal electric utilities.

Publicly owned municipal electric utilities who take power from Ontario Hydro must be governed by a Commission which is either elected or appointed. Some 15% are appointed and some 85% are elected. Generally the Mayor is an ex officio member of the Commission. The Ottawa Commission is appointed, one member by City Council and one member by Ontario Hydro and the Mayor or the Mayor's designate, ex officio.

Commissions range in size from three to seven members, with three and five the most common.

The Commission has the full and exclusive responsibility for the operation, maintenance and expansion of the electricity system which actions can only be influenced by Council in their control of borrowing of funds by the Commission. Accordingly, in the industry, one frequently hears the term "stand alone utility" to describe this arrangement.

3. THE FUTURE

New technology and the forces of competition are causing the corporate structure of electric utilities to be changed worldwide. Vertically integrated utilities are being broken down into their fundamental components of generation, transmission and distribution.

Ontario is no exception. The provincial government's white paper on electric utility restructuring "Direction for Change", brings to an end the corporate structure as we know it today. Briefly stated, the salient features of the white paper are as follows:

- Both wholesale and retail customers will be able to purchase electricity from their supplier of choice in the year 2000. Essentially, electricity gets traded like a commodity in a competitive market and the present monopoly is brought to an end.

So, for example, Ottawa Hydro could establish wholesale supply contracts with either in-province or out-of-province suppliers and this electricity would be delivered to Ottawa over the existing network of wires.

Similarly, you as a retail customer, could purchase your electricity from your supplier of choice and Ottawa Hydro or your local utility would deliver it over the network of distribution wires.

This is not unlike the results of deregulation in the natural gas or long distance telephone market. In the electricity market, this arrangement already exists, most notably, in the United Kingdom and in California.

- Nobody wants more than one set of wires running across the landscape. So, the wires business remains as a monopoly regulated by a newly empowered Ontario Energy Board. As such, there will be a regulated charge for use of the wires to deliver the electricity.
- To ensure a level playing field, the monopoly operations (the wires) will have to be corporately separated from the competitive businesses (electricity supply, customer services, and so forth).
- The utilities will be put on a commercial footing consistent with the Ontario Business Corporations Act.

- The playing field will be further levelled by requiring the municipal electric utilities to pay the equivalent of income tax and dividends. Initially this money will go to paying down the Ontario Hydro debt.
- Two new commercial companies will be created to succeed Ontario Hydro. One will assume ownership of the generation and the other will assume ownership of the network of wires.
- Local municipal electric utilities will also be required to separate their monopoly wires business from their non-regulated competitive businesses such as the sale of electricity, rental programs, customer services, and so forth.
- The government will encourage geographic consolidation of the local municipal electric utilities on a commercial and voluntary basis.

Concurrent with the global restructuring of electric utilities, another interesting phenomenon is taking place - convergence. Electricity and gas suppliers are merging as energy suppliers. This again is reality in the United States and Canada appears to be following the lead.

Some of the implications of electricity supply restructuring may be summed up by quoting from a brief by the Canadian Electricity Association to the Provincial Mines and Energy Ministers Conference in July, 1997.

"Actions to create a competitive wholesale market in the United States through the application of the Federal Energy Regulatory Commission (FERC) regulations coupled with state initiatives in retail open access is fundamentally changing the structure and rules of the game. New suppliers employing marketing approaches never before seen in electricity markets are changing the way business is done. The convergence of gas and electricity supply into energy solutions approaches through mergers or partnerships is but one example. Electricity is becoming a competitive business like other competitive businesses. This brings with it new demands on electricity companies requiring advanced technologies, new skills, greater flexibility and speed in decision making and perhaps most importantly, it demands of regulators that they recognize the evolution of the marketplace and configure their regulatory regimes in a way that permits existing electric utilities to compete equitably with new entrants."

"Canada in general, is not at the leading edge in the development of competitive markets for electricity. Substantial progress has been made in Alberta and announcements aimed at opening transmission systems to one degree or another in B.C., Manitoba, Quebec and New Brunswick are significant steps in the right direction".

The bottom line - it is apparent that the nature of the electricity business of the future will be quite different from that of the past. Competition and market forces will set the tone.

4. WHAT DOES THIS MEAN FOR OTTAWA-CARLETON?

Municipal governance proposals for the Ottawa-Carleton region range all the way from one single municipality to more than one municipality in a two tier or modified two tier system.

Clearly, if one single municipality wins the day, one municipal electric utility is obvious.

Should a two tier system be chosen, one municipal electric utility congruent with the upper tier is the preferred option. This is consistent with the position of the provincial government and others who have studied the situation.

Generally, the electric utility customer wants the lowest possible rates, good customer service and a reliable supply.

In what follows, each of these expectations are addressed with a particular eye to the future. As Helen Johns, MPP, Parliamentary Assistant to the Ontario Minister of Environment and Energy, remarked in her presentation to the Municipal Electric Association Summer Conference in June, 1997, "The challenge is to ensure that Ontario's electricity system continues to meet the needs of our economy and society -- not just in the short term, but also into the 21st century."

4.1 Rates

Cost reduction opportunities exist in administration and supervision, inventory, finance, engineering, management information systems, customer service and billing and human resources. But there would be upward pressure on costs if customers in the less densely populated areas demand the same level of service as those in the higher density areas.

On the basis of our preliminary analysis undertaken in 1992 in conjunction with Mr. Graham Kirby's review of regional government, with one utility, cost may be reduced by some \$2 to \$3 million annually for Ottawa-Carleton electric utility customers. About two thirds of this amount was due to the reduced wholesale cost of electricity because of load diversity between the utilities.

Measured against an annual cash flow of some \$500 million, this represents a reduction of only some one-half of one percent. So rate reduction is not a major driver in the short term.

But the point to be made here is that this \$2 - \$3 million ought to remain in the hands of the customer and not leave the local economy. From economic theory, we know that the propensity to spend will magnify the local impact.

As pointed out earlier, generation accounts for about 70% of the cost of electricity. Sooner or later any generation surplus in Ontario will be used up and this will put upward pressure on rates. One amalgamated utility in the Region will be in a better position, because of expanded financial resources, to install some local generation and thus keep rates competitive.

Because of its expanded human resources, staff specialization and greater buying power, one utility will be better able to secure the best price for wholesale electricity in a competitive marketplace. Purchasing of electricity in the new order will indeed be a complex matter. As Ms. Johns pointed out, "Another issue will be the expertise required at the distribution level. Distributors will need sophisticated forecasting, purchasing and contract negotiating ability. They'll have to develop expertise in making power purchases on the spot and futures markets. They will have to be cognizant of the numbers of differentiated products on the market. And over time, their customers will start to demand new energy services and products." One larger utility will be in a better position to successfully deal with these market forces and thus keep electricity rates competitive by negotiating the best deals for those customers who chose not to secure an alternate electricity supplier.

Ottawa Hydro's gross margin has traditionally been lower than that of its neighbouring utilities in the region. Accordingly, Ottawa Hydro's wires charge should be expected to be lower. Keeping in mind that these distribution costs (or wires cost) are only some 10-15% of the total cost of electricity delivered to the customer, equalization of the wires charges for all customers in an amalgamated utility should not result in a price shock.

But wires costs are sensitive to load density and it seems reasonable to set the wires charge accordingly. Such is the case with the existing Ontario Hydro retail system which has low density and high density rates.

Accordingly, it is suggested that all existing wires charges and thus rates be frozen for a period of about two years during which time a cost of service study would be undertaken so that rates could be established on the basis of cost causality.

4.2 Customer Service

From the previous quotation, we recall that Ms. Johns suggests that over time customers will start to demand new energy services and products. In a competitive environment, such expanded services must be provided if the utility is to survive. Some such services

which already exist in the United States are consolidated and aggregated billing, extensive energy use advice, special rates, home security, possible convergence with natural gas, district heating, and telecommunications.

Because of limited human and financial resources and expertise, smaller utilities will be hard pressed to keep pace. In the past, perhaps because of the proliferation of smaller utilities across the province, Ontario Hydro took the lead in promoting leading edge services. There is some significant doubt if the new order of electricity in Ontario will continue to provide this kind of leadership.

One municipal electric utility in Ottawa-Carleton will have the necessary critical mass to compete as an effective service provider.

Even within the existing order, one utility would provide improved customer service.

For example, 24 emergency hour service will improve. Presently only Ottawa Hydro is staffed on an around the clock basis.

Of Ottawa Hydro's 140,000 customers, 40,000 move each year. If they stay within the region but move to the territory of another utility, they have to close out one account and open another account with another utility and all that this entails. With one utility, it would simply be required to call and indicate a change of address.

Further, and also important, there would be only one set of utility regulations and requirements to be dealt with by customers, builders, consulting engineers, suppliers, and so forth.

One utility could help to promote economic growth by reaching out to new commercial and industrial customers to locate within Ottawa-Carleton. With six utilities as at present, such activity is non-existent. Surely, the present fragmentation is confusing and frustrating for the customer.

The one utility suggested would have some 260,000 customers - almost twice as many as Ottawa Hydro presently supplies in the City of Ottawa, City of Vanier and the Village of Rockcliffe Park.

Some say this is too large and that local concerns would be ignored. Not so - for example Ottawa Hydro has had a policy of underground wiring in new subdivisions since the 1950's. This policy was a response to local concerns. Most of the poles you see standing today were installed before this time. In fact, over the years, 53 km of these poles have been removed and replaced with an underground system again in response to local concerns.

Customer service is a function of utility culture. It is driven from the top and need not degenerate with size.

The cities of Calgary and Edmonton have 297,000 and 257,000 customers respectively. Nobody appears to be suggesting that they are too large or provide poor customer service. The situation is the same for the large Ontario municipal electric utilities.

4.3 Reliability, Planning and Operations

The reliability of the electricity supply should not deteriorate with one utility. Staff will be at work 24 hours a day and in the event of a major outage caused by a storm for example, more employees will be available to restore the electricity supply.

The new utility could assume responsibility for the regional sutransmission network and associated transformer stations which are presently owned by Ontario Hydro. This suggestion recognizes the value of consolidated planning and operations on a regional basis to allow for better coordination of planning and operations.

Also, one utility could expand our fibre optics network throughout the region to the benefit of all customers and provide a business opportunity for the new utility to enter this potentially lucrative market. This is yet another example of convergence which will be difficult to achieve with six separate electric utilities as presently exists.

5. GOVERNANCE

It has been suggested by some that the municipal electric system should be integrated into the municipal administration. This is seen as inappropriate.

The "stand alone" status of Ontario's municipal electric utilities has served the customers of the province well over the years and has never been demonstrated to be a part of the problem. Recently announced amalgamations in Toronto and Chatham-Kent have followed this model and appear to be supported by the provincial government.

Alberta is on the leading edge in Canada in its move to a competitive marketplace for electricity. The City of Edmonton responded by removing the electric utility from the City administration and setting the utility up as a single shareholder corporation, with the shares held by the City. The City of Calgary has done the same. Essentially these will be "stand alone" utilities not unlike the existing Ontario model.

The electric utility must be operated as a business even more so in the future than in the past because of the competitive environment. Decisions will need to be taken quickly to take advantage of new opportunities and to respond to market forces. Confidentiality will also be important. The Canadian Electricity Association brief quoted earlier points out the

need for "greater flexibility and speed in decision making". The decision process of municipal councils is not well suited to this type of environment.

For a municipal electric utility with 260,000 customers in the area of Ottawa-Carleton, a stand alone Commission with five or seven members is appropriate. Appointment of the Commission members by the municipal council together with the Mayor or the Mayor's designate, ex officio, would ensure region wide representation and recognition of the views of the various stakeholders. Commissioners would have one clearly defined focus - the municipal electric utility. There is a good supply of eminently qualified citizens in Ottawa-Carleton to take on this task and through their policy guidance one of the best utilities in the province would be the result - a utility that would be sensitive to the needs of its customers and able to compete effectively and successfully into the next century.

6. IMPLEMENTATION

In the initial instance, Ottawa Hydro, Nepean Hydro, Gloucester Hydro, Kanata Hydro and Goulbourn Hydro could be amalgamated. Once this operation was successfully integrated, the utility would expand to the Region's boundaries as provided by Bill No. 185.

By implementing the process in these steps, and with rates frozen as suggested, the annual cost savings should be adequate to cover any amalgamation costs. Hence no one-time rate increase or levy is anticipated. After amalgamation, these cost savings would remain with the customers.

Staff reduction could be achieved through attrition.

7. CONCLUSION

The municipal electric utility industry in Ontario is about to be launched into a competitive environment where market forces will prevail.

One stand alone municipal electric utility in Ottawa-Carleton governed by a Commission appointed by municipal council is best suited to meet the needs of the local residents and businesses well into the 21st century.

Given that municipal restructuring will occur by the year 2000, and that during that year market forces and competition will be a reality in the electric utility industry, it would be prudent to proceed with municipal electric utility restructuring at the earliest possible date.

OTTAWA HYDRO (1996 DATA)

- **Founded** - 1915
- **Governance**
 - Three member appointed Commission
 - . One appointed by City Council
 - . One appointed by Ontario Hydro (selected from two nominees by City Council)
 - . Mayor or designate, ex officio
- **Present Commission**
 - Mr. Bruce Chick, Chair
 - Ms. Dyan Cross, Vice Chair
 - Councillor Ron Kolbus
- **Service Area** - City of Ottawa, City of Vanier, Village of Rockcliffe Park
- **Number of Customers**
 - 139,000
 - Third Largest of Municipal Electric Utilities in Ontario
- **Peak Load** - 803,300 Kilowatts (All time Peak 892,100 Kilowatts)
- **Energy Sales** - 4,462 Million Kilowatt Hours
- **Generation** - 12,000 Kilowatts at Chaudière Falls on the Ottawa River
- **Number of Employees** - 346
- **Revenue** - \$310,461,000
- **Gross Margin**
 - 9.4%
 - (Compared to 12.4% on average for Large Municipal Electric Utilities in Ontario and 14.4% on average for all Ontario Municipal Electric Utilities)

- **Capital Expenditures** - \$10,360,000
- **Operating Expenditures** - \$31,208,000
- **Residential Rate Comparisons**

Monthly Residential Electricity Bills
750 Kilowatt Hours
at March 1, 1996

Ontario Rural (High Density)	\$74.75
Toronto	\$71.85
Sudbury	\$68.20
Kanata	\$65.38
Hamilton	\$65.35
North York	\$64.13
Windsor	\$62.10
Gloucester	\$62.05
Nepean	\$61.25
Ottawa	\$55.73

Source: Ontario Hydro, Regions Branch
ISSN 0826-7898

- **Debt free in 1998**



OTTAWA HYDRO

OTTAWA HYDRO'S MISSION

**To provide a reliable and safe supply
of electricity at competitive rates**

OUR GOALS

- to pursue excellence in customer service
- to enhance employee satisfaction within a safe workplace
- to promote the wise and efficient use of electricity
- to minimize the environmental impact of our operations

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17 March 1998

Bob Chiarelli
Regional Chair
Regional Municipality of Ottawa-Carleton
111 Lisgar Street
Ottawa, Ontario
K2P 2L7

Re: **Proposal for the Establishment of an
Energy Corporation for Ottawa-Carleton**

Dear Mr. Chiarelli:

Further to our recent conversation regarding the above, I am enclosing a proposal for the establishment of an Energy Corporation for Ottawa-Carleton. This is submitted as a personal initiative, and not in my capacity as an elected member of the Nepean Hydro Commission. The basis for the proposal is my involvement in planning, energy and conservation issues over many years, and more recently, as a hydro commissioner since 1994.

I strongly believe that in view of forthcoming municipal restructuring and the introduction of competition in the electricity market by the year 2000, there exists a unique opportunity to improve service and value to the residents of Ottawa-Carleton, and most importantly, in view of the recent ice storm, to also address the dimension of security to the business of electricity supply.

As a society, we are in the midst of enormous institutional restructuring due to rapidly evolving technology, the redefinition of the role of government, and the strong driver of the market economy. It is therefore opportune to redefine the way in which electricity service is provided to the customer in much the same way that change has already occurred in the provision of other services such as telephone, cable and natural

gas. In the attached article submitted to the Ottawa Citizen, *A Strategy for Energy Self-Reliance in Ottawa-Carleton*, I refer to some of the initiatives Nepean Hydro has already taken, particularly with regard to partnerships with other service providers. There are, however, limitations to the creativity of municipal utilities due to their governance by the Public Utilities Act. Such strictures would be eliminated if electricity service was provided under the auspices of a not-for-profit energy corporation governed by the Business Corporation Act. With the opening up the electricity market in Ontario in just two years, and local utilities already making important decisions in order to be prepared to make their own bulk purchases of electricity, it would be appropriate to initiate change at this time.

The serious ramifications of the recent ice storm, in the context of human and economic cost, dramatically illustrates the need for a fresh approach to guarantee security of service. I believe that as community leaders we have an obligation to put in motion a long term strategy for energy self-reliance in Ottawa-Carleton. The deficiencies of the current system, and its over dependence on power from a distant source, are now more than apparent to the millions of people in Eastern Ontario and Quebec who suffered power loss during the ice storm. Alternative energy technologies have made great gains in the last twenty years, and a combination of these energy sources, together with bulk purchase on the open market, would ensure that a disaster would not reoccur on such a scale.

I believe that for all the aforementioned reasons, this is the time for regional government to take a leadership role in addressing the challenges facing local utilities, and strike a Task Force with the mandate to investigate the feasibility of establishing an energy corporation for Ottawa-Carleton. Such a corporation would be equipped with the necessary tools to compete in a deregulated market and ensure energy self-reliance in the region, as well as contribute to the diversification of the local economy.

It is of paramount importance that community leaders take steps to ensure the delivery of reliable electrical service to all residents. I urge you, therefore, to give serious consideration to this recommendation. I look forward to hearing from you in order to further discuss this matter.

Yours truly,



MAREY GREGORY

cc: Regional Councillors
Merv Beckstead, CAO, RMOC

Carl Kropp, GM, Ottawa Hydro
Arthur Emmet, GM, Nepean Hydro
Douglas Fee, GM, Gloucester Hydro
Guy Cluff, GM, Kanata Hydro
Janet King, Secy. Treasurer, Goulbourn Hydro
Jim Watson, Mayor, Ottawa
Mary Pitt, Mayor, Nepean
Claudette Cain, Mayor, Gloucester
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Dwight Easton, Mayor, West Carleton
Kim Kelly, GM, Ottawa-Carleton Board of Trade
Brian Barge, President & GM, OCEDCO
Gary Hunt, Ex. Dir., BOMA
John Baird, MPP, Nepean
Gary Guzzo, MPP, Ottawa-Rideau

Att: Proposal for the Establishment of an Energy Corporation for Ottawa-Carleton
Submission to Ottawa Citizen, *A Strategy for Energy Self-Reliance in Ottawa-Carleton*
Independent Power Producers of Ontario, Feb. 1998 Newsletter, pp. 11-13
Press Clippings

A STRATEGY FOR ENERGY SELF-RELIANCE IN OTTAWA-CARLETON

The devastating ice storm which hit so many communities in this part of the hemisphere has spun off at least two positive side effects in Ottawa-Carleton. The first is that in the face of adversity we have shown that we are a strong resourceful community right from the grass roots, with citizen helping citizen, up to the newly elected Regional Chair, Bob Chiarelli, who has shown he is more than equal to the task of providing leadership in such an emergency. The second is the much needed focus on energy.

Those of us who are acutely concerned about this vital resource, as to how it is produced, conserved and delivered in such a way that it will enhance and enrich, rather than threaten, the quality of our community, have been faced with an uphill battle in drawing attention to the need for a major overhaul of the current ways and means of energy production, delivery and use. The ice storm has succeeded in riveting public attention to the weaknesses of our energy system, and now is the time to make redress.

First, let us look at some practical lessons learned from this disaster. The most important is that reliance on a single source of energy is unwise, and that battery operated radios, oil-fueled lamps and a source of heat independent of electricity are essential. Where Quebec has been criticised for its over reliance on electricity for home heating, (accounting for approximately 80% of all homes), Ontarians using natural gas heating, were no better off due to the fact that electricity is necessary to fire up most gas furnaces. Notably, those fortunate to live in homes insulated to R2000 standards, and possessing a wood stove were distinctly better off.

A recent Citizen editorial (20 Jan'98) called for a regional hydro plan. As a Commissioner of Nepean Hydro, I can state that we have been closely monitoring the multiplicity of issues aimed at change in the energy field which have been steadily gaining momentum, ranging from provincial municipal restructuring and the impending break-up of Ontario Hydro, to the forthcoming emergence of competition into the Canadian electricity market as a result of a global tide of change, which cannot, and should not, be resisted.

A regional utility is but one option which has been considered. However, the convergence of all these events, analysed in the context of the crisis arising from the devastation of the ice storm, dramatically points to the need for a comprehensive re-evaluation of both the structure and role of the municipal utility. What is clear, is that a strategy for energy self reliance is sorely needed in Ottawa-Carleton, and not merely a reshuffling of the present utilities. Largely as a result of rapidly evolving technology, in an environment of a market-economy increasingly driven by competition, the delivery of power itself will become but one small part of the service package which could be provided to an ever increasingly sophisticated consumer

As a Hydro Commissioner, for example, I have supported initiatives which have included partnerships with other service providers to improve energy efficiency, enhance customer service, increase customer choice and streamline costs. Currently, for example, we are exploring the concept of community energy systems in partnership with CMHC and others. In addition, discussions with Consumers Gas are in progress to investigate the feasibility of cost saving measures such as joint meter reading. Nepean Hydro has also sponsored public workshops on energy efficiency and conservation methods which have been highly successful. Nepean Hydro has also participated in efforts by the Region to utilise the methane gas for energy purposes which is presently lost as it is flared off from the regional landfill site. These efforts have consistently met with resistance from Ontario Hydro.

These initiatives by Nepean Hydro are indicative of the rapidly changing role of the local utility, and reflects only a fraction of the multiplicity of services which could be offered. The last decade has seen enormous gains in the refinement of renewable energy generation. Wind turbines, for example, provide a significant percentage of energy used in California and Germany. Solar energy, or photovoltaics, has very practical niche applications, and the use of gas turbine technology in cogeneration projects for heating and cooling is gaining much ground, examples can be found here in the region at the Health Sciences Centre, as well as at Carleton University. Power cells are also on the verge of mass application. The trend is away from mega power projects such as the ill starred Darling nuclear power station with its enormous cost overruns in the billions of dollars, and rather towards more cost effective, energy efficient and environmentally friendly sources of energy located closer to the demand source. This has tremendous potential for local economic development, with the capability of increasing local employment opportunities and creating spin-off business opportunities. It can also, more importantly, improve reliability of service.

With respect to competition, this reflects the global trend of eliminating the public monopoly of producing power as governments seek to streamline their fiscal responsibilities. . Ontario Hydro was initially put in place at the beginning of this century to ensure that power was delivered to all communities in Ontario, as well as fuel the growing demand by the growing manufacturing and natural resource sector, but has now become a public liability with Ontario Hydro's debt registering at \$32 billion. Last month the provincial government set up a committee to oversee the transition of splitting up Ontario Hydro into two bodies, one to produce, and another to transmit electricity. The other important development is that responsibility for regulation will be re-assigned to the Ontario Energy Board. Ontario Hydro, as a crown corporation with little accountability to the taxpayers, will be obliged to succumb to the pressures of the open market and be subject to the same regulatory standards as independent producers.

Largely as a result of the ice storm, and indications that this may by no means be the last, many are now calling for a public debate on energy. We need to closely examine the vulnerability of the over-centralised electricity grid, and move immediately to becoming individually and collectively more energy self-sufficient to avoid the repeat of such a catastrophe, the economic impacts of which will be felt for some time to come. The convergence of all these events, ever increasing technological advancements, debt ridden governments, the pressures of market competition and climate change, points to the need for a comprehensive re-evaluation of both the structure and role of the municipal utility. What is clear, is that a strategy for energy self reliance is sorely needed in Ottawa-Carleton. To this end, Regional Government must strike a Task Force with a view to establishing a not-for-profit Regional Energy Corporation governed by the Business Corporation Act. Such a Corporation would be mandated to implement a long term plan for regional energy self-sufficiency by 1) amalgamating local utilities in the region and extending service to rural residents currently served by Ontario Hydro within RMOC boundaries; 2) in cooperation with municipal government facilitate state-of-the-art energy efficiency concepts through building retrofits and new construction to R2000 standards; 3) investigating potential partnerships for the development of regional energy, and 4) work with other levels of government for higher energy efficiency standards and increased use of renewable energy supported by appropriate tax incentives.

New problems require innovative solutions. In life, there is no looking back, we must continually move on to face fresh challenges. The "wires" industry is rapidly evolving - a laptop computer can now operate by a handy portable fuel cell, and in the not to distant future we will more than likely see the telephone, electricity and cable wires rolled into one. A Regional Energy Corporation, given the proper tools, will be able to fully exploit these developments for the benefit of all residents in Ottawa-Carleton.

Marey Gregory
Nepean Hydro Commissioner

9 February 1998

A PROPOSAL FOR THE ESTABLISHMENT OF AN ENERGY CORPORATION FOR OTTAWA-CARLETON

OBJECTIVE:

To respond to the deregulation of the electricity industry in Ontario by the year 2000, and ensure a secure and affordable supply of power to all residents of Ottawa-Carleton through the establishment of an independent, not-for-profit Energy Corporation.

HOW?

Through the amalgamation of all existing municipal utilities in the region and the extension of service to rural residents currently served by Ontario Hydro.

The corporation to operate under the Business Corporation Act, and be governed by a board of directors reflecting the community at large and stakeholders in the industry.

MANDATE OF THE CORPORATION:

1. To develop local sources of energy through partnerships with other stakeholders;
2. To develop a strategy for the application of energy efficiency and conservation measures in partnership with Regional Government;
3. To purchase bulk power on the open market;
4. To form partnerships with other service providers to enhance customer choice and streamline costs, and
5. To work with the provincial and federal governments for the implementation of higher energy efficiency standards and the implementation of renewable energy technology supported by tax incentives.

RECOMMENDATION:

That a Task Force be struck forthwith, comprised of representatives from local utilities and other stakeholders, to investigate the feasibility of forming an Energy Corporation for Ottawa-Carleton.

REFERENCES:

1. IPPSO FACTO, February 1998, "*Lessons from the Ice Storm*", p. 11; and "*Northwest Energy Corporation Forms*", p. 13.
2. Globe & Mail, 6 March 1998, "*Two weeks without power, Auckland feels the heat*".
3. Globe & Mail, 5 March 1998, "*Hotels take on greener hue*".
4. Ottawa Citizen, 17 February 1998, "*Will Ontario Hydro plug into telecommunications?*".
5. Globe & Mail, 17 February 1998, "*Commentary - Absolute power corruption*".
6. Globe & Mail, 14 March 1998, "*Getting the politics out of power*".

Deregulation causing pollution: US study

Increased competition in the power market is likely causing increased emissions of pollutants, such as nitrogen oxides, sulfur dioxide, and carbon dioxide, according to an initial analysis by the Northeast States for Coordinated Air Use Management (NESCAUM). "These findings strongly support the inclusion of environmental safeguards in any legislative proposal regarding utility restructuring," the study said. The study examines the trends in electricity generation that have emerged since the passage of the Federal Energy Regulatory Commission Orders 888 and 889, which instituted wholesale competition. Specifically, NESCAUM addresses the concerns of Northeast states that deregulation will result in increased use of low-cost, polluting coal-fired power plants. Many of these facilities are located in the industrial Midwest and have been shown to contribute to air pollution in the Northeast. NESCAUM represents eight states bordering Ontario, Quebec and New Brunswick.

According to the report, emissions of nitrogen oxides increased six percent in six Midwestern states in 1996, particularly at coal utilities. The low-cost power suppliers experienced a large growth in sales concurrent with the beginning of wholesale competition. In addition, emissions of carbon dioxide from all fossil-fuel generation increased by roughly 4.7 percent from 1995 to 1996, an increase greater than the cumulative increase from 1990 to 1995. The report does caution, however, that other factors, such as increases in the price of natural gas and the closure of several nuclear power plants in New England, may have influenced these trends. See "Electric Power Alert," January 28 and "Air Pollution Impacts of Increased Deregulation in the Electric Power Industry: An Initial Analysis," January 15, from NESCAUM, 617-367-8540.

Midwest utility AEP released documents in early February which it claims show that the air quality problems of the northeast result largely from pollution originating in the northeast. AEP also chided the northeast states for their reluctance to adopt controls required by the Clean Air Act Amendments of 1990 that would improve their own air quality.

On February 2 it was announced that a group of utility companies, labor and other organizations from several Midwest, Great Lakes, Mid-Atlantic and Southeast states had formed a new cross-sector committee, the Alliance for Constructive Air Policy (ACAP). It will work with policymakers for "cost-effective, equitable approaches for reducing ozone pollution in key regions of the country."

- With files from *The Utility Restructuring Weekly Update* compiled by Energetics, Inc., and Energy Central Online.

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Lessons from the Ice Storm

by David McArthur and Stephen Salaff

Quebec and Eastern Ontario: Bulk electricity outages due to the January ice storm in eastern Ontario and Quebec allowed a number of independent power projects and cogeneration units to meet some power needs of otherwise blacked-out communities and industry. "This storm clearly demonstrated the benefits of reducing community dependence on power from distant sources," said IPPSO Executive Director Jake Brooks.

In Quebec and Ontario, some 3 million people lost power, in some cases for several weeks, due to numerous downed transmission towers, utility poles and trees, which had accumulations of a minimum of 10 cm of ice. Portable generators were brought in from distant parts of Canada to supply power and heating.

The storm shattered public confidence in the bulk power supply systems of Hydro Quebec and Ontario Hydro. Many now realize the fragility of centralized power systems and are showing an interest in decentralized models which could prevent such disasters, including windpower and natural gas cogeneration systems.

Kingsey Falls

Norm Rubin, director of nuclear research at Energy Probe, points to the Quebec town of Kingsey Falls, where a pulp and paper cogeneration operation supplied electricity to the local grid and the surrounding community, keeping people warm and supplied with power while the rest of the area was blacked out. However, it was only by shutting down the pulp and paper production operation that power became available for the community.

He indicated that a post-mortem of the ice storm should determine what made the community different, and allowed just such a connection.

Rubin also points out that the Dupont cogeneration plant in Maitland, near Brockville, Ontario, continued to operate, as did AES's cogeneration facility near Kingston. Both plants helped townspeople cope with the ice storm emergency.

Cornwall

In Ontario, the city of Cornwall lost its electricity supply from Hydro Quebec, and had to rely on a temporary feed of 110 MW from Ontario Hydro, less than its usual requirements.

The city's natural gas district energy system (one of the few in Canada, which generates 5.5 MW, helped the town to "significantly" meet a portion of demand, according to Paul Fitzpatrick, Cornwall's assistant chief administrative officer.

Rubin pointed out that the district energy system allowed displaced townspeople to stay warm and with power in the public buildings in Cornwall utilized as shelters.

A larger district energy cogen system planned for the nearby, hard-hit city of Kingston was blocked in 1994 when Ontario Hydro asserted its monopoly.

Energy Probe's Tom Adams noted that the TransAlta Energy plant "worked very well" in Ottawa and played a material role in "saving the neck" of Ottawa when the 500 kV line went down. However, Cornwall's district energy system experienced a broken crankshaft in an engine, due to line disruptions, and faces a major rehab.

The town of Cornwall is still negotiating the terms of sale of Cornwall Electric to Consumers Gas Energy Inc., as announced in October 1997.

Rubin points out that a big lesson of the ice storm is just how much the electricity systems in Ontario and Quebec are geared to bulk power generation.

... Continued on next page

Ice storm lessons (cont.)

and distribution. Difficulties in hooking up small generators to the existing system were legion -- the systems simply weren't designed for distributed generation.

Quebec power is highly centralized

Jean-Louis Chaumel, professor of project management at the University of Quebec at Rimouski, on the Gaspé Peninsula, and vice president of the Canadian Wind Energy Association, noted that Hydro-Quebec's power network is highly centralized around large hydroelectric dams in the James Bay and other areas. As a consequence, for example, the Gaspé Peninsula depends completely for its electricity on a single power line from Quebec City.

"The ice storm emphasized the need for the decentralization of power in Quebec. There are now active discussions in Quebec, including Hydro-Quebec and the Quebec government, on the need to diversify both the grid, and energy sources," he stated.

Quebec government action

The Quebec government is being sharply criticized by environmentalists, farmers, the opposition Liberal Party, and many others for allegedly exploiting the extraordinary ice storm disaster, which affected 1.4 million Quebec customers (close to one-half of Hydro-Quebec's customer base), to enact Hydro-Quebec's controversial development programs.

The government has fast-tracked HQ's expansionist Strategic Plan 1998-2002, and also the utility's short term 1998-2000 program to strengthen the grid system and improve the security of power supply in southern Quebec.

In mid-January, the Lucien Bouchard cabinet quietly passed an emergency decree to accelerate official approval of the Strategic Plan, which was presented to the premier in late October 1997 and was then explicitly earmarked for public review by a parliamentary commission within three months.

The cabinet exempted Hydro-Quebec from submitting the plan to the Bureau d'audiences publiques sur l'environnement (BAPE), Quebec's environmental

assessment board, to the body which approves developments on farmland, or to Quebec's new Régie de l'énergie, the energy board established recently to oversee the electricity and natural gas industries.

Focused on "sustained growth and profitability," the plan proposed capital spending of over \$13 billion for a wide range of high-growth measures, including diversion of more Quebec rivers including the Great Whale and Rupert Rivers, and the construction of new transmission lines to Quebec's periphery, including Ontario and the U.S. northeast (IPPSO FACTO Financial/Technical Supplement, December 1997, page 5).

Bouchard said that he fast-tracked the Strategic Plan because Hydro-Quebec owes \$30 billion to financial markets, and media images of the ice storm devastation in the Montreal area were making Wall Street nervous.

"The Strategic Plan is not designed to consolidate the existing network, but to promote exports and production," said Denis Bergeron, president of the Union pour la conservation de la nature, Quebec's chief environmental group. "This (plan) is not going to improve the reliability of the network."

Quebec's largest farmers' association, the Union des producteurs agricoles, criticized HQ's plans to overrun farm land in order to rebuild the electricity network.

In fact, Hydro-Quebec formally proposed on January 21 a "quick fix" transmission plan designed to repair and consolidate the grid and to avoid a repetition of the tragedy. Under the transmission plan, Hydro-Quebec would connect the high-voltage transmission systems in the Montérégie and Outaouais districts and downtown Montreal in a loop, establish a major interconnection with Ontario's high-voltage system, and strengthen the high-voltage transmission lines.

The transmission fix will cost an estimated \$815 million in 1998-2000, in addition to the \$500 million which HQ is spending to repair the transmission systems felled by the ice storm.

The Montreal *Gazette* on January 29 noted that the announcement of the transmission "fix" brought an outcry from the opposition Liberals, who say Bouchard has tossed several aspects of the ice storm crisis to a technical commission, when instead there should be National Assembly committee hearings.

As of late January, about 50,000 Quebec households were still facing a nightmarish fourth week without electricity as a result of the storm.

Windpower in demand

Chaumel indicated that "we recently received several requests for wind energy for specific urgent needs during the ice storms. Most of them related to the problems of large farms without electricity. We could not respond, due to our lack of wind turbines in the 5 to 10 kW range. But the question is now on the table, and we must find solutions. For example, the University of Quebec is examining the feasibility of a 'portable' unit, ready for assembly and operation within 24 hours. A chevy van would carry all the equipment for a 5 kW turbine, including the tower in sections."

Wind turbines outside ice zone

Chaumel said that the three 750 kW NEG-Micon wind turbines recently erected by the Micon/Axor group for Hydro-Quebec, near Matane on the Gaspé Peninsula, were well outside Quebec's main ice storm area around Montreal, and avoided icing problems.

However, a Hydro-Quebec transformer connecting the three turbines to the main utility grid failed in late December, before the turbines could enter operation. The cause and responsibility for this difficulty have not yet been clarified.

This \$5 million demonstration project, which is designed to facilitate development of a wind turbine component industry in Quebec, is now paralysed until Hydro-Quebec can detach workers from ice storm response duty to replace the transformer.

The 10 kW Bergy wind turbine, erected by the public-private consortium Forum Energie near Rimouski, has experienced no mechanical or electrical problems for the past 16 months, despite very strong winds and periods of icing. As coordinator of wind projects for Forum Energie, Chaumel is promoting job creation and economic development for the Gaspé region and for Quebec.

During the ice storm, the Bergy machine threw off ice naturally, without any



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Thunder Bay, Ontario. A group of municipal utilities, businesses, and community interests are working on the formation of a new non-profit company called the Northwest Energy Corporation. The Corporation may soon be able to bring together customers and municipal utilities in the region to take advantage of bulk buying and the new energy business opportunities inherent in restructuring. There was an enthusiastic and diverse turnout to an organizing meet-



ing January 28 in Thunder Bay, and approval was given to proceed with the business proposition. Incorporation is expected to be complete before the end of March. For further information, see "Northern Ontario Power Co-op Planned," in IPPSO FACTO, October 1997, page 14. The co-op structure was abandoned in favour of a non-profit corporation, on the advice of the group's lawyers.

A representative of the Ontario Ministry of Energy, Science and Technology told the meeting that their plan is consistent with the white paper. Thunder Bay Hydro General Manager Larry Hebert was particularly pleased at the support from municipal councillors, mayors and reeves, who came out to the meeting. "We think this kind of plan will encourage industry to come here in many forms," he told IPPSO, referring in part to the likelihood of independent power projects being developed in northwestern Ontario. One of the corporation's main reasons for existence is to increase the accountability and representation of electric utilities to their customers, by improving service and value.

The 11 municipal utilities who are potential partners are Atikokan HEC, Dryden HEC, Fort Frances PUC, Rainy River PUC, Kenora HEC, Nipigon HEC, Red Rock HEC, Schreiber HEC, Sioux Lookout HEC, Terrace Bay HEC and Thunder Bay HEC. The draft bylaws provide for each of these utilities to have 1, 2, or 3 votes each, according to size, and also to be responsible for paying dues in the same proportion. Ontario Hydro Retail which operates in the area may be interested in partnering as well. There will be an associate member category for other organizations. A number of businesses and First Nation organizations have expressed interest in becoming Associate members.

Since learning of the Northwest Energy Corporation, it appears that District 9 of the Municipal Electric Association is becoming interested in investigating a similar idea.

Consultants for the group are van Beers Consultants Inc., who can be reached at 416-604-8178, fax 604-8208 vanbeersr@msn.com. For further information, contact Julia Sore, Corporate Secretary at 807-343-1106, or fax 807-345-8338 or Doug McCaig, Interim Chair, at 807-274-9495, or fax 807-274-1937.

external intervention.

Lessons Learned

Brooks notes that as long as each community has a few buildings (such as factories, hospitals or schools) with independent power systems, disasters such as this ice storm would be greatly reduced. However, for more system stability, distributed power control systems need to be put in place by utilities. If this were done, then the community facilities which are still running when some lines are down would be able to export power to their neighbors, and relatively few people would need to leave their homes.

This kind of lesson should not be confined to winter problems alone. During a heat wave last August, independent power producers "came to the rescue of hundreds of thousands of Californians" who could have been without electricity after investor-owned utilities declared a "system emergency" resulting from sudden transmission line outages and exceptionally high energy demands due to the heat wave.

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 The Globe was founded in 1844 The Mail was founded in 1872

Saturday, March 14, 1998

Getting the politics out of power

THE news is going Newfoundland's way these days. This week's joint announcement with Quebec of a proposal to develop the hydro-electric capacity of Labrador's Lower Churchill River is only the most recent example. Add the success of offshore oil and the mineral potential of Voisey's Bay, and the Rock seems poised for a bout of welcome growth.

But it is precisely when things look rosiest that politicians fall most easily prey to growth strategies not grounded in reality. Joey Smallwood touted the original Churchill Falls hydro project as the keystone of the province's economic development. It turned out to be an albatross around its neck, squandering Newfoundland's hydro capacity, subsidizing the profits of Hydro-Quebec, and poisoning relations between the two provinces for over a generation. Is there reason to think that things will turn out better this time?

The answer is maybe and no, depending on which part of the proposed development is meant. Two distinct projects are being proposed. The main one would build new generating capacity on the Lower Churchill, and transmission lines to the U.S. market. This is the one that may have merit, but only if certain conditions are met. The second project would use submarine cables to send some of the new power across the Strait of Belle Isle to Newfoundland. The case for it is far from obvious.

There are many reasons to be skeptical about the grandiose claims of provincial premiers and electricity monopolies for their pet megaprojects. Promising huge economic benefits at low cost, they have too frequently delivered big taxpayer-guaranteed debt and high rates instead. A chief reason for this has been that the utilities have enjoyed a captive market for their electricity, while investors have been coddled by provincial loan guarantees that made taxpayers bear the risk.

Canadian utilities have traditionally tried to make what are in fact high-cost projects look cheap by borrowing on the public credit, not earning adequate returns on equity, using suspect depreciation practices and squirrelling project-related costs away in other parts of the utility. These practices are deplorable, because they make it hard to judge whether projects really create more in benefits than they consume in resources.

In the case of the Lower Churchill project, this sleight of hand is to be seen in the

proposal to spread over all of Hydro-Quebec's customers the cost of the additional transmission capacity. When these costs are fully attributed to the proposed development, as they should be, what looked like cheap power suddenly gets pricey.

There is thus a simple test to determine whether or not this project makes sense. First, attribute all costs (including aboriginal claims to compensation and environmental costs) to the project itself, making the future consumers of this power pay its true cost instead of forcing all Quebec ratepayers to subsidize it. Then the two utilities should go to the market and try to raise the project financing with no implicit or explicit provincial or federal loan guarantees.

With no guarantee, investors risk their own money, and that changes their behaviour. No longer will they tolerate projects where the sums are suspect, the markets uncertain or the management not up to earning adequate returns. If money is forthcoming under these conditions, then build, but not otherwise.

Then there is that other project: an additional \$2-billion for the submarine cables to Newfoundland. Newfoundland is already knocking on Ottawa's door looking for financing guarantees. That in itself is a sure sign that St. John's knows that this project destroys more wealth than it creates. It is not even clear Newfoundland needs the power. Demand has been flat for years. The promised smelter for the Voisey's Bay mine needs electricity, but could just as well be built in Labrador as on the island.

If real demand growth is coming, other cheaper options for satisfying it exist and have not been fully studied, such as undeveloped local hydro, industrial cogeneration and using the province's own offshore gas. As for paying for the cable with Kyoto-inspired tradable emissions credits from cleanish hydro power displacing dirtier forms of electricity, this is fantastical. Far better to sell all of Labrador's power on the open market for the best price it will bring, and use the money to develop the island's own power potential. Pierce the greenhouse-gas smokescreen, and the submarine cable looks like just another old-fashioned appeal to Ottawa for a make-work project disguised as economic development.

When politics and electricity mix, the victims are the taxpayer and economic common sense. It shouldn't happen here.

Hydro: New boss has no 'magic bullet'

Continued from page D1

About six months ago in Europe, Northern Telecom unveiled technology that would allow Internet connections through electrical wire.

"It's specific to the European kind of grid," Mr. Angus said, "but nevertheless there is an issue of developing the technology there."

Meanwhile, Mr. Osborne, a British-born accountant with a strong grounding in publishing, video and multimedia from his days at Maclean Hunter Ltd. and conglomerate BCE Inc., said he has no magic solution to turn around problem-plagued Ontario Hydro overnight.

"I don't think there is any magic bullet," he said. "You don't do it with grandiose statements. You don't do it with warm fuzzies or Ourward Bound courses in north Ontario in the snow."

"You do it on a day-to-day basis, meeting challenges as they come and setting short-term, medium-term and long-term goals."

Not only is the utility, the largest of its kind in North America, in debt to the tune of about \$32 billion, but an internal report last year blasted the "mismanagement" of its nuclear division.

Ontario Hydro last year announced plans to take seven of its 19 functioning reactors out of service following the damning report. It was expected to cost between \$3 billion and \$4 billion to mothball the seven reactors and upwards of \$10 billion to make the necessary upgrades.

Adding to uncertainty at the corporation is the expiry of its employee contract March 31.

Mr. Osborne said the challenge will be to lay out a vision for Hydro.

"You have to lay out a vision that says we can be competitive and that we can carve out our niche in life, and once we are through the turmoil of transition we are going to be the winner," Mr. Osborne said.

"That's essentially what I've tried to do at Bell over the past six months."

Tom Adams of Energy Probe said Mr. Osborne's first priority is to give a "brutally honest assessment" of all aspects of Hydro, as was done last year with the nuclear division.

Mr. Osborne said Hydro employees will have to "welcome and relish the challenge of competition and know that their job security comes from meeting competition."

Ontario Hydro now has about 20,900 workers, down substantially from the early 1990s when there were almost 29,000. Mr. Farlinger has said there are still too many employees, suggesting that another 10 per cent could be trimmed, but not in the nuclear division.

Can 22 Feb 98

Will Ontario Hydro plug into telecommunications?

Giant utility already has 'a wire into every house and business'

BY RICHARD BERNAN

TORONTO — Debt-ridden Ontario Hydro might get into telecommunications as a new source of revenue, says William Farlinger, chair of the giant utility.

"I think it's something that is possible," Mr. Farlinger said yesterday after introducing the corporation's new president and CEO, Ronald Osborne, who is leaving his job as president of Bell Canada on Feb. 28 to start with Ontario Hydro on March 3.

Mr. Farlinger said Hydro has dis-

And least one expert said that with its province-wide infrastructure system and rights-of-way, there's a good chance Ontario Hydro will offer telecommunications services.

"Absolutely," said consultant Ian Angus.

"Nobody else ... has anything like the ability to carry wires from A to B easily. They could conceivably string additional wires. There are hydro companies everywhere trying to figure out if this is a way they can make money."

"They've already got wire into every house and every business."

See HYDRO on page D2

Absolute power corruption

SINCE Lord Acton created his famous aphorism — power corrupts, absolute power corrupts absolutely — nobody has more accurately described the Canadian electricity industry. Across most of the country, giant electric power monopolies roam the land in megalomaniacal splendor, munching on the green tips of taxpayers and hatching plans for another stampede for more power. The latest adventure in absolute power extension comes out of Churchill Falls, where Hydro-Québec, Newfoundland and Ottawa are attempting to engineer a \$12-billion megaproject.

Now anybody watching Hydro-Québec lumber through the ice storm — bungled strategy, lack of preparedness, structural weakness — is today more aware than ever that the power monopolies are the cause of major distortions in our economy. Hobbled by central planning, political ties, lack of competition and a disdain for market forces, Hydro-Québec emerged from the ice storm with its reputation in tatters. The idea of privatization has never looked more attractive.

But still the dinosaur crashes on. Last week it continued to seek disaster relief from Ottawa to compensate for \$500-million in ice-storm losses. This from a company that has claimed billions in accounting profits



Terence Corcoran

over the years, and apparently has so much money swilling around that it was able to announce last Thursday a \$1-billion investment in a fund that will develop electric power projects all over the world. There's money on hand for risky investments in Peru, Mexico, China and wherever, but federal taxpayers are supposed to help offset the ice storm at home.

So far, Ottawa has turned Hydro-Québec down. The next question is whether Ottawa also will turn down the much bigger electric power money grab, development of 4,000 megawatts of new capacity at Churchill Falls in Newfoundland. The exact scale of the madness building around Churchill Falls is not fully known, but recent reports in *The Globe*, *The Financial Post* and *Le Devoir* suggest taxpayers in all regions of the country should take their children indoors and switch on the V-Chip. Serious acts of economic porn are going to be attempted.

The unholy cabal behind Churchill Falls includes Newfoundland Premier Brian Tobin, Quebec Premier Lucien Bouchard, Hydro-Québec and — apparently — assorted federal officials. Beginning with the power project itself, Québec and Newfoundland would go to the bond markets to raise \$12-billion to pay for dams and major transmission lines. Since Newfoundland has no serious borrowing capacity, the big debt load would have to be picked up by Québec through Hydro-Québec, maybe even Ottawa.

At \$12-billion to build 4,000 megawatts, the cost at Churchill Falls would therefore be about \$3,000 a kilowatt. These would be high-risk dollars because of the remote Labrador location and the inherent uncertainty of running more wires over long distances that could get hit by another ice storm or some other unforeseen disaster. Compare that with the \$500-a-kilowatt capital cost of installing gas turbine generating systems in locations close to the market at virtually no risk.

But the real money trick at Churchill Falls is developing around a plan Mr. Tobin has concocted to ship power to the island of Newfoundland. In his recent statements on Churchill Falls, Mr. Tobin has laid down his negotiating "principles," one of which is that "provision must be made for a transmission line capable of moving

up to 800 megawatts of power" under water from Labrador to Newfoundland. The cost of that project is \$2-billion, an amount of money that exceeds Newfoundland's borrowing capacity by about \$2-billion.

To get around this problem, Mr. Tobin — with the co-operation of Québec — has proposed that Ottawa participate in funding the transmission line. According to a *Financial Post* report, the project appeals to the federal government because Ottawa will be able to use the 4,000-megawatt addition to Canada's energy supply — supposedly clean hydro power — as an offset against greenhouse gas emissions generated by oil and gas plants. That would help Canada meet the emissions reduction targets agreed to last year in Kyoto.

A wilder distortion of economic good sense could not be imagined, although at this point it's impossible to know what form the tradeable emission programs and other Kyoto-driven schemes will take. If the cable to Newfoundland is a sample of the fall-out from Kyoto, there's no telling where the craziness will end.

If Newfoundland really needs new power, are there no local options? What, for example, would be the costs of developing small hydro power plants on the island? Do we really need to spend \$12-billion-plus to provide Newfoundland with electricity?

a 'green room' yet?

BY ANNE MULLENS
Special to The Globe and Mail

JUST as one would ask for a non-smoking room, in a growing number of hotels in British Columbia, business travellers with a concern for the environment can request a "green" room.

Make that request at Vancouver's upscale Westin Bayshore, and here is what you get: a water-conserving toilet and shower head, aerators in all the taps, energy-saving light fixtures and heating systems, biodegradable wheat-germ soap and shampoo in a wall dispenser rather than in disposable bottles, paper products and room stationery made from recycled paper, and a recycling box to put used bottles and paper.

The Westin Bayshore is one of 16 hotels in British Columbia that are now part of the B.C. Hydro Power Smart Green Hotels program, the first of its kind in the world. Under the program, B.C. Hydro Power Smart Inspectors scrutinize hotels that have applied to the program and award points to those that implement and follow good environmental practices in their guest rooms and day-to-day operations.

To be "green," the hotels must have minimum of 2 per cent of their rooms as completely "green rooms" and 50 per cent of the remaining rooms with water-saving tap and shower devices. Points are awarded for each environmentally sound practice; a minimum of 120 points gives them the designation Power Smart Green Hotel. If they earn 180 points they are given the "plus" designation. Hotels that meet the criteria are listed as "green" in the B.C. Accommodations Guide and on B.C. Hydro's Web site, and are part of B.C. Hydro's Power Smart promotional campaigns.

Richard Wohl, key account manager for B.C. Hydro who oversees the green hotel program, says a number of hotels are in the process of qualifying for the designation. "Because many hotels will have to do some renovations, it can take a couple of years to qualify," he said.

The Westin Bayshore has earned the Green Hotel Plus designation. Although strict "green" rooms make up just 75 of the hotel's 750 rooms, The Bayshore has adopted other environmentally friendly policies and practices throughout the entire hotel. The kitchen composts and recycles everything possible and unused foods are donated to the local food banks; requirements for heating and light for



Westin Bayshore Hotel manager Denis Forristal: 'In energy costs alone we are saving more than \$100,000 a year.'

(CHRISTOPHER GRABOWSKI/The Globe and Mail)

meeting rooms and common areas throughout the hotel are programmed on a computer so that they are turned off when not in use. Towels, bedding and furniture, when too worn for use in the hotel, are donated to the Salvation Army. Even left-over soap is donated to the Sally Ann, which melts it down to make new soap.

"It cost a lot initially to do the conversion, particularly for the lights, showers, and toilets, but now in energy costs alone we are saving more than \$100,000 a year," said Denis Forristal who also noted that the amount the hotel must haul to the landfill has dropped "500 per cent."

Most of their clients have welcomed the change, but Mr. Forristal acknowl-

edges receiving a few complaints from clients who expect a hotel experience to include lots of disposable luxuries. European visitors, however, have been very positive, he said.

Sherry McCutcheon, general manager of the Best Western Collingwood Inn in Courtenay, B.C., the only Power Smart Green Hotel now on Vancouver Island, says the savings for her hotel have been just a small aspect of the change.

"I think the biggest advantage is the positive comments we get from client and the way it makes our staff see. The staff is really into it. It makes them feel good. We think this is the wave of the future," Ms. McCutcheon said.

Hotels cutting waste

• From Page C1

Then, on the basis of the hotel's guarantee of a steady supply of recyclables, a local entrepreneur stepped in to develop a recycling program.

It has taken seven years, says Ms. Layton, to work through the local challenges at each of the hotels, get renovations and retrofits underway and get the first 16 targeted environmental changes on track. CP Hotels recently announced the start of "Green Partnerships, Phase II."

Now, the hotels are focusing on "green" conferences — no styrofoam cups or individual coffee creamers when your meeting takes its break —

industrial composting of the hotels' mountains of organic waste, and "green" golf course management.

Under the golf course initiative, the aim is to have all CP Hotel golf courses as part of the Audubon Co-operative Sanctuary System of Canada, which would optimize golf-course green space as refuge and habitat for wildlife. Changes will include projects to introduce indigenous plants into course design, the use of new ways to minimize or eliminate pesticides, the composting of all grass clippings, branches and leaves, and the development of trails and signs for non-golfers.

TRENDS / Making hotels environmentally friendly is emerging

as the latest development in the hospitality industry. 'What I want is a modern hook-up

that works, not a little bottle of peach shampoo,' says one business traveller whose views seem to be widely shared.

Hotels take on greener hue

BY ANNE MULLENS
Special to The Globe and Mail

CRISP sheets and fresh towels every day, unlimited hot water, little bottles of shampoo, tiny soaps wrapped in paper. These are some of the luxuries that travellers expect when staying in a nice hotel.

But when it comes to the environment, those hotel niceties add up to waste on a huge scale.

In fact, the inherent workings of a large hotel seem to dictate one immense drain on the environment, with rooms to heat in winter or cool in summer and clean spotless every day. TVs running, lights burning, toilets flushing almost constantly. Plus there are pools and saunas to heat, kitchens, bars and restaurants churning out mounds of garbage, and laundry, laundry, laundry.

"I really get offended at the astounding amount of waste I see in most hotels," says Ian Gill, president of EcoTrust, a conservation organization operating in Canada and the United States. "That little bar of soap in your hotel room, you unwrap it, use it once. When you come back that night, they have removed it and replaced it with another one wrapped in paper."

Mr. Gill spends at least half his working life travelling through the United States and Canada and he echoes other environment-minded travellers in his desire for more "green" hotels to choose from while on the road.

"As a business traveller, what I want most is a modern hook-up that works, not a little bottle of peach shampoo. Hotels could do so much to reduce their waste without reducing their service."

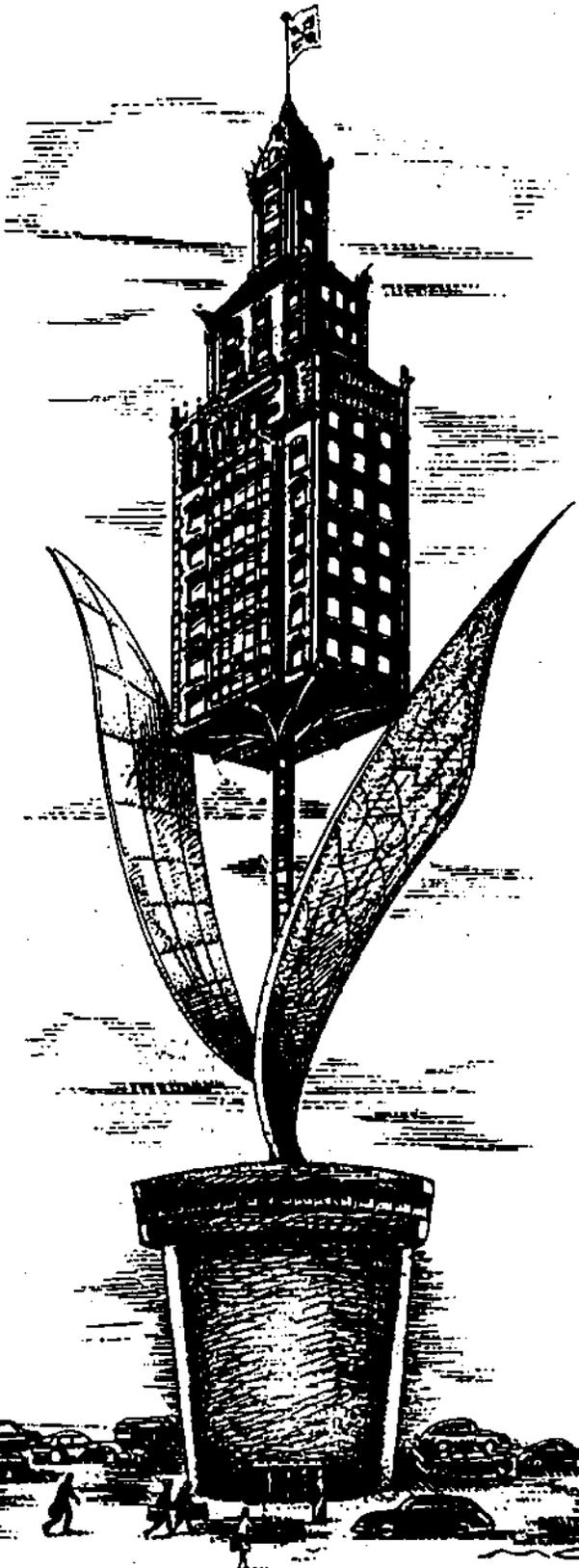
That message has been getting out to hotels. In fact, making hotels environmentally friendly is emerging as the latest trend in the hospitality industry. And Canada is on the leading edge. Witness the following recent developments:

•The Hotel Association of Canada recently launched its "Eco-rating" program, the first of its kind in the world. Like stars given for luxury, eco-rating will give from one to four "green leaves" to hotels that have environmental policies and programs in operation.

•Canadian Pacific Hotels, one of the world leaders in environmental programs, has announced the next phase of its "Green Partnerships" by introducing plans for industrial composting to its kitchens, the availability of no-waste "green conferences" and environmentally friendly golf-course management to its chain of 26 hotels.

•B.C. Hydro, in conjunction with the B.C. and Yukon Hotel Association, launched a "Green Hotel" accreditation program in November, 1996. Today, 16 hotels in British Columbia have undergone a B.C. Hydro inspection and have in place programs and equipment to reduce energy consumption, conserve water and reduce waste, earning them the designation "Power Smart Green Hotel," which they can advertise and promote to customers.

In short, many hotels are realizing that not



only is a "green" hotel good for the environment, it can be good for business by reducing operating costs and promoting efficiency while attracting customers.

"That is the great thing about it — every body benefits," says Ann Layton, vice president of communications at Canadian Pacific Hotels, which since 1990 has been putting environmental practices in all 26 of its hotels, including making changes to lighting, toilets and taps, introducing environmentally friendly cleaning products and putting recycling boxes in every room, as well as donating excess soap, worn linens and unused food to charitable organizations.

A 1995 retrofit of the Banff Springs Hotel for example, introduced energy efficient lighting in 95 per cent of the hotel, which has reduced electricity costs by \$140,000 a year. No complaints were received from guests about a change in ambience or light quality. In fact, guests didn't even seem to notice. Ms. Layton says.

Elsewhere, the Sheraton Centre Toronto operated by ITT Sheraton, modified the toilets in its 1,400 rooms to reduce the flushing volume by two litres per flush and now saves 35,000 litres of water daily on the estimated 17,000 flushes that occur each day in the hotel and meeting areas.

"We tried it out on the Club Floor first, because those are some of our most discriminating customers and we didn't want to do it for the whole hotel if quality was going to be affected," says Cynthia Bond, spokeswoman for Sheraton Centre. "No one complained and we are saving thousands of litres a day."

It is now common in many hotels for guests to be given the option of keeping their towels rather than laundering them if they are staying more than one night. Hotels with this program report that about 45 per cent of guests keep one or more towels by hanging them up rather than throwing them in the tub.

"It could probably be higher, but our housekeeping staff, if they have any doubt, change the towels," Ms. Layton says. "Still, the reduction in laundry is significant."

Eight years ago, when CP Hotels first surveyed its 10,000 employees about putting environmental policies in place, 95 per cent said they wanted the hotels to go green and 85 per cent said they would even be willing to work harder without compensation to make it happen. With that mandate, CP Hotels drafted a 16-point action plan to target areas of highest concern to employees: waste reduction and recycling, water and energy conservation, green purchasing, and the elimination of toxic chemicals in the workplace, Ms. Layton says.

Extra staff effort, at times, was indeed needed. At Hotel Newfoundland in St. John's, no community recycling program at first was available, so staff negotiated with the local liquor control board to drop off hundreds of wine and spirit bottles at liquor stores for reuse by home wine makers.

Please see *Hotels* / C10



Powerful rock band & new/95/11/21

An Irish rock band is helping the people of Auckland, New Zealand, see the light. All four main hydro cables serving the city collapsed more than two weeks ago and nothing seems to be going right with efforts to repair or replace them. Weeks more in partial darkness are expected. The temporary solution has been to use generators. But this means flying them in from other parts of the world and Reuters reports a world shortage of large transport planes to do this. That's where U2 comes in. They have their own huge cargo plane and have loaned it to the city.

Two weeks without power, Auckland feels the heat

Associated Press

AUCKLAND, New Zealand — At least 2,000 businesses in downtown Auckland are "fighting for their lives," the city's mayor declared yesterday as New Zealand's largest city faced the 13th day of a massive power failure.

And more pain is in store: Estimates of when city utility Mercury Energy could lay a new cable to restore electricity vary from five to 10 weeks, but not sooner.

The lights went out Feb. 20, when the last of four underground cables supplying power from a hydroelectric plant south of the city failed in the searing heat and humidity of New Zealand's summer. Merchants estimate they are losing \$60-million a week as a result, and some who rely on serving the city's 80,000 commuters are considering bankruptcy.

"There are probably 2,000 businesses fighting for their lives at present in central Auckland," Mayor Les Mills said yesterday. "It is a situation that would be devastating for the whole economy."

Business owners are despondent.

Being open is "a bit pointless because all the office workers and the people that live in the central city are just not there," tavern owner Reg Newton said.

Mr. Newton said that although he has business insurance, "the insurance companies have gone into hiding. They don't want to know."

He said he filed a lawsuit against his insurer yesterday and is considering bankruptcy as early as next week.

Prime Minister Jenny Shipley, who is due in town today, urged businesses to sue Mercury Energy for their losses.

Gerrit 6 May/95