

ADAPTING A ROLE TO A CHANGING WORLD

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An address to

The Canadian Club of Toronto
Royal York Hotel

Monday, November 17, 1975
1:00 p.m.

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I am glad to be here, although I must say that the circumstances are not quite those I had contemplated when some months ago Ed Heeney asked me to be your guest. Last week when I had occasion to look back at some old notes, I found somewhat to my surprise and amusement that the title I had used for my first public speech after joining Hydro a year and a half ago was "Adapting a Role to a Changing World". Although my words and the events to which I will refer today are different, the title and the theme are still appropriate. It is some indication that either the world has not stopped changing, or that Hydro has not stopped trying to adapt -- or, at the very least, that I still think I need to talk about it.

Ten months and seventeen days ago I became Chairman of Ontario Hydro. While I knew the job as presiding officer of such a large and ubiquitous corporation, that is wired into virtually every household and place of business in the province, would be demanding, it seemed like an interesting challenge. But some demon was apparently lying in wait, for a couple of months later the skies opened, and the deluge began. Let me hasten to assure any friends of George Gathercole who may be in the audience that I am not comparing him to Louis XV, he who prophesied, "After me, the deluge". George had lots of use for a rainsuit himself.

The year 1975 saw inflation in Ontario, among other places, reach intolerable levels, aggravated by the oil shortage and other energy constraints. As a consequence, one of the first official communications I had to make to the Minister of Energy on behalf of the Ontario Hydro Board was to submit on April 24 our proposal for 1976 rates. The law requires us to give eight months warning -- longer than is required of some others. It included the largest increase ever asked for by Hydro -- in case you haven't heard, almost 30 per cent -- twice the size of the increase that had been requested a year earlier for 1975.

But in addition to rampant inflation, the accompanying recession (they're like betrothed lovers it seems) resulted in a substantial drop in our forecast growth in power demand for the near future. A similar economic slowdown in the United States resulted in a drastic drop in our sales of secondary, interruptible power to utilities in that country -- an important by-product revenue. And so it was becoming ever more apparent that Ontario Hydro, after having implemented at the beginning of this year the biggest increase ever, except the 14.8 per cent of 1953, was going to suffer the biggest deficit in its history. By this time, I would have been content to rest on my laurels, prickly though they were.

But there was more to come. On July 7 the provincial treasurer unveiled his mini-budget, and accompanied it with directives to Ontario Hydro to reduce its capital expenditures by \$1 billion, reduce administrative expense by 10 per cent and -- for God's Sakes do something about that appalling rate increase. Ontario Hydro responded the next day by instituting a hiring freeze and announcing that it was studying the government directives. There were those who interpreted this to mean that Hydro was balking, but in fact we needed time to determine how the government's objectives could best be met. An immediate "Yes, Sir" would have been irresponsible.

On July 31 I reported to the Ontario Energy Board, then in its eighth week of hearings, on Hydro's response to the directives of government. I said that Hydro would slash its capital construction program by \$1.2 billion and its operating costs by \$30 million. Our rate increase would be cut to 25 per cent and we would all just have to learn to live more dangerously.

I pointed out, as I felt it my responsibility to do, that these actions could put considerably more pressure on Hydro's financial resources at a time when we needed more money from a deteriorating market and, in the longer run, cause a significant decline in the standard of service that Hydro customers have come

to expect. Since a utility is concerned with lead times as much as 10 to 12 years, any real impact of these cutbacks on Ontario's power supply won't be felt until up into the 1980s.

Then on August 11, Premier Davis announced an election for September 18, the results of which I think you know. I do.

In the meantime, the difficulties experienced by the Ontario Energy Board in hearing Hydro's case -- some of which I hope can be avoided in the future -- combined with the rush of events since our submission in April, made it apparent that their report was going to be late. An interim report was issued at the end of August, the date that the statute required. As a matter of fact, the OEB's public hearings only finished on September 15 -- three days before the provincial election and over three months after they had begun. The Energy Board's report finally appeared on October 10. It largely justified Ontario Hydro's rate submission and, indeed, as a consequence of using a different approach, recommended a somewhat higher figure than our revised position.

On October 13, Prime Minister Trudeau appeared on the television sets of the nation shortly after we had finished Thanksgiving dinner to announce the federal government's anti-inflation guidelines. While such a program has many weaknesses, it is a program, and I believe that all of us should support the federal government's efforts to bring inflation under control with all our hearts and minds and voices.

A week later the Ontario Hydro Board, with time for only a quick look at the guidelines, reaffirmed its intention to stick with the lower rate increase that it had enunciated in response to the directives of the provincial government. The Board did this having in mind Hydro's statutory obligation to bill at cost and in light of the Ontario Energy Board's confirmation that the 25 per cent rate proposal was not out of line with increasing costs. What seems to get overlooked in debate on the 1976 increase is that it relates to wholesale rates for power to the municipal utilities and large industrial customers -- not retail rates to the residential consumer. Not enough has been heard about how it relates to the dollars and cents on the bills of the householder. We estimate that the effect on customers whose monthly bills are close to the provincial average of \$14.25 will be about \$2.25 a month -- and I said so in my April letter to the Minister which was released to the public through the news media. It works out to 15.8 per cent, less than one-third the average 55 per cent suffered by U.S. consumers as long ago as 1974.

On October 22, a day after the Hydro Board made its decision, the government announced that a select committee of the Legislature would examine Hydro's rate increase to ascertain whether it met the federal anti-inflation guidelines. Finally,

I should add that in the week that saw the appointment of the select committee on rates, the Royal Commission on Electric Power Planning, that long and fascinating exercise of inventing our future, as its distinguished chairman Dr. Arthur Porter puts it, held its first public hearings.

As a new Hydro Chairman, I can hardly complain that life has been dull. Without wanting to exaggerate, perhaps it would be appropriate for me to say that it has been a not uneventful year.

There were, though, plenty of reasons, valid reasons, for all these happenings -- including the rate increases. They are, as it is said, signs of the times; symptoms of a confused, changing world where aspirations for the good things of life have given way to expectations and then to demands -- with not many signs of a willingness to pay for them. We are all finding it more or less difficult to adapt. In that sense, Ontario Hydro is no different from any other institution, but it is more visible and also more exposed to the winds of public opinion. Despite all the comments to the contrary, it has made great efforts to adapt and is probably a good deal further ahead in the process than other institutions within our society, particularly those that are, at least for the present, more immune to the attacks of the critics and the cynics.

If we go back and take a look at Hydro's beginnings, we see some interesting parallels with today. Some 70 years ago, a group of Western Ontario businessmen, facing inflationary rises in the price of coal which Ontario at that time obtained from Pennsylvania, and seeing no other indigenous energy resources than the falling waters of Niagara, banded together to urge a co-operative approach by Ontario's municipalities to the development and sale of the electric power which the new technology could wrest from the Falls. And on September 29, 1910, power from Niagara turned on the lights in Kitchener, almost 100 miles away, delivered by the new public power enterprise, Ontario Hydro. So for the power to fuel its industries, Ontario was, at least for a time, set free from its almost total dependency upon the coals of Pennsylvania.

From those beginnings, Ontario Hydro had rapid, sure, and sustained growth. It developed a growth ethic tailored to transmit the benefits of electricity to the farthest corner of the province and to put to use all the advantages of scale -- and large they were -- and later on to fill in the valleys of power usage when expensive facilities would otherwise have been idle. Of all the influences leading to the development of this province as Canada's industrial centre, none perhaps was more

important than the provision, at cost, of electric power, which now provides nearly 45 per cent of all the energy used by Ontario's manufacturing industry.

But it's also interesting to trace the growth in the use of electricity in the home. By 1939, the average residential consumption had grown to about 2,000 kilowatt-hours a year. At the end of 1959, when Ontario Hydro was moving to greater dependency on coal-fired units, annual consumption had reached 5,500 kWh's and by the end of 1974, with our increasing propensity to use clothes washers and dryers, dishwashers, air conditioners, and instant-on colour TVs, had climbed to 9,000 kWh.

So in both the domestic and the industrial spheres of Ontario life, electricity was playing a larger and larger part, and in both the result has been increasing productivity, and an increasing standard, and dare I say it, quality of life.

All this was made possible by that friendly growing giant, Ontario Hydro, who was developing an engineering and research competence equal to anything the world over, coupled with the financial prudence that goes back to the hard-headed businessmen who started Hydro in the early part of the century. The result was one of the largest and best run utilities in the world -- a success story of which all Ontario has been justly proud.

Some of Hydro's early visionaries -- who had been called crackpots for predicting electric lights in every home -- had thought the power of Niagara would provide for Ontario's needs well into the 21st century. But by the late 40s Hydro realized that it was already running out of water power and would have to look to other fuel sources to power its turbines. It seemed that we might have to return to dependency on Pennsylvania coal since Ontario possesses none, and indeed we did.

But lurking around in the undergrowth were also some reports that suggested that perhaps our future energy needs could be supplied by uranium, of which Ontario had an abundant supply. So in the early 1950s Ontario Hydro joined with Atomic Energy of Canada Limited to see what could be done towards building nuclear reactors for the commercial production of electric power. The success of that team of developer and user is now history.

Outside Hydro and the world of electricity, things were also beginning to change. Our world was growing older and more crowded, and running into some of the problems of maturity. We had been introduced to what Clifton Fadiman called "The unholy trinity of our times -- population, affluence, and technology." Hardly had the transition to thermal power got under way in Ontario than we began to hear something about the way in which we were poisoning the world. Rachel Carson's *Silent Spring*, published in 1962, marked the start of our concerns about pollution.

Some 10 years later, the Club of Rome commissioned a study that became known as The Limits to Growth, which in effect told us that we were running out of supplies. Somewhere in between, Alvin Toffler, in his book Future Shock, told us that perhaps we wouldn't have to wait until we poisoned the world or ran out of supplies before we were eliminated, that the very prospect of the problems the world faced would prove too much for us and we'd all go bananas -- and though slangy, that metaphor could well represent the views of the more fearful that the world may become a kind of Planet of the Apes.

So, moving into the 60s, we have Ontario Hydro with a pretty secure role, or so it seemed, as the delivery agency for electric power in the province. But the rate of change in the world outside was accelerating. It promised to be a brand new world even if not a brave one. One is reminded of the words of Lowell's famous hymn: "New Occasions Teach New Duties". And do you remember the next line? "Time makes ancient good uncouth".

The changing world seemed to call for a new role for Ontario Hydro. But could it adapt from its ethic, its emphasis on technological excellence, its search for new ways to use -- rather than to conserve -- electricity?

In retrospect, it seemed almost too good to be true that the government in its wisdom saw fit to set up a group to take a look at Hydro and its role at just about that time, in 1971. A year and a half later saw the release of Task Force Hydro's first report entitled, "Hydro in Ontario - A Future Role and Place". That report talked about many things. But central to its message were these two sentences. First, "There has developed on Hydro's part, acceptance of an increasing need for firm policy direction from government". Secondly, "The recommendations are intended to ensure that Hydro policy in the 1970s and 1980s is consistent with the objectives and aspirations of the total community as expressed in the policy of the government of Ontario". No longer, the report pointed out, was it possible for Hydro to continue in the largely autonomous way in which it had so successfully performed over the past decades. Other important missions of government had emerged over the years, and there was no longer elbow room to allow an electric utility to move without having careful regard for them. Almost all of the 32 principal recommendations of the main Task Force Hydro report have been implemented -- most before I arrived on the scene. Not all government reports receive such prompt action from the object of their attentions. One of the principal recommendations concerned the reorganization of the governing body of Ontario Hydro and its top management, particularly with respect to its relationship to the government through a designated Minister of the Crown, now of course the Minister of Energy, and a sorting

out of responsibilities between the government and its agency.

But all the changes both inside and outside Hydro have not and should not change its central mission, which is to provide an adequate supply of electric power at the lowest feasible cost. This central purpose comprises four continuing functions: First, to estimate the future demands or needs of the province for electric power; second, to design and construct a power system to supply those needs; third, to operate the system as effectively and as economically as possible and, fourth, to recover from its municipal, industrial and retail customers, the cost of providing the services. These seem simple enough, but when you remember that an adequate supply of electric energy is only one among many objectives of our provincial community, and that providing it must be integrated with other goals of public policy including those of environmental protection and energy conservation and public participation, the mission loses its simplicity and becomes very complex indeed.

Task Force Hydro also talked about an approach to responsiveness which put a good deal of emphasis on the responsibility of Hydro, not only to keep out of the way of the other objectives and goals of the province, in other words, to avoid stepping on other people's toes, but in a more positive way to aid and assist in the achievement of those other goals. Here is the new context, or the changing world, within which Ontario Hydro must find its role. It was well described by Aurelio Peccei,

the founder of the Club of Rome, when he said: "our objective as a society must be the attainment of clusters of coherent goals, not be limited to the pursuit of individual ones."

I mentioned the elements of Hydro's central mission, the first of which is to forecast the demand for electric power in Ontario. But it is no longer good enough to say that Ontario Hydro should forecast what the future demand is most likely to be and then go out and build the lines, stations, and other physical hardware necessary to meet it. For meeting that need may require resources over and far beyond those that can be accommodated without harming other provincial goals that possess equal or transcending importance to the development and delivery of electric power.

So steps may have to be taken to curtail demand, or at least to fit it into overall provincial goals. Hydro itself is actively promoting energy conservation to that end, and higher and more realistic prices for electricity, if they are permitted, may help curb the growth of consumption. But surely no one expects a delivery agency like Hydro to act as a controller or rationer. That must be the responsibility of government.

Knowing what you want is easy. The difficult part is knowing what you can afford, and I think we, the people of Ontario, have finally bumped up against the hard fact that we can no longer afford unremitting growth in the consumption of electric energy --

or indeed of anything else -- that has become ingrained in our way of life. The resources available and the tradeoffs with other goals, not the amount of energy that our economy and our people are likely to use if it is available, have become the overriding considerations.

Tradeoffs. That's a word the public is going to be hearing a lot of in the future. Tradeoffs are the currency of making choices. Should the taxpayers' money buy broader highways and bigger welfare programs, or do we want more parks and libraries? Do we want more energy-consuming cars and equipment or do we want a cleaner environment? By getting along with less of the first, we can achieve more of the second. Must we learn the hard way -- and looking at our present economic condition one is almost forced to assume that is the only way we ever seem to learn -- that we can't have all we want of everything.

The requirements of men and materials and money that the construction of the new power facilities will require have to be brought within the overall capital priorities and allocations of the province. When the facilities have been constructed Hydro's job is to deliver the power. Here the watchword must be "at the lowest feasible cost", and Hydro must be subject to some outside authority -- as it is, the Ontario Energy Board -- to make sure that its costs are reasonable, having regard for the function it must perform. Similarly, that outside authority must and does pass

on Hydro's own judgment as to how the costs should be allocated among the different classes of customer.

This year three different levels of governmental authority have looked at Hydro's affairs and have pronounced, or will pronounce, their judgments thereon. Each is independent and yet each must find that its function overlaps with those of the others. First we have the Ontario Energy Board whose function is clearly one to review, by way of public hearing, Hydro's submission for rate increases and, in the words of the Ontario Energy Board Act, any matter in any way affecting or related to rates or charges including principles and practices respecting power costing, rate making, financing, service reliability, system expansion, and operations. Second, we have had the government itself issue directives straight at Hydro as the Treasurer did in his mini-budget speech. The third authority is the select committee of the Legislature. So we have an agency of government, we have government itself, and we have the Legislature, to which the government is responsible, all looking at Ontario Hydro.

But Hydro is also being scrutinized in a very different context by still another governmental authority. That is the Royal Commission on Electric Power Planning headed by Dr. Porter.

This Commission, with terms of reference probably broader than those of any other such body ever appointed by the Province, and the impact of whose findings will probably be greater than that of any Royal Commission in our history, will jump nearly 10 years ahead and then look at all the options there may be for the making and delivering of electric power from then until the beginning of the 21st century. When its findings are translated into Provincial policy, they will be guidelines within which Ontario Hydro will have to operate.

These are, of course, all outside authorities. In its new dress as a crown corporation, Hydro's governing body is a Board of Directors, which is responsible to the government for the operation of the enterprise. The directors represent a variety of interests and backgrounds: business, finance, labour, conservation, and the municipal utility system. They have worked hard to help the Corporation adapt to a more responsive role. In the light of their efforts, and with the number of outside reviews of various aspects of Hydro's affairs, either completed, underway or just starting, I find it puzzling to hear critics claim that Hydro is out of control. That is not how it appears to me. I know of no organization in Canada that has undergone such scrutiny.

In closing, I would like to say something about Mr. Gerhardt Moog's glass building up on the corner of College Street and University Avenue. Owned by Canada Crescent Corporation and rented by Hydro, it is going to provide space to consolidate for the first time in more than two decades the Hydro head office people who have been scattered in 9 different locations about the city.

Some years ago I was told by an expert that there were two ways in which one could provide space for a head office organization. The first way is to construct a building as inexpensively as you can and then fit the people into it. The second way is to build an organization and then protect it from the weather. The new Ontario Hydro building is both but as a result of Hydro's initiatives and plans, it is more the second than it is the first, for it must surely have the most flexible office accommodation in the country. Although conference rooms and washrooms will still be closed in, you will not find a single office wall on Hydro's 16 floors of 50,000 square feet each.

As for the building itself, Mr. Moog and his company have done an outstanding job of combining beauty, efficiency and the ultimate in conservation. Our new head office is probably the

most energy efficient building in Canada. Its total energy consumption is less than half that of the average modern building of similar size. It is true that it has no furnace of any kind and if, when you drive by, you get the impression that mirrors have something to do with it, that's true, too. Best of all, it required no capital investment whatsoever by Hydro. The rent is the cheapest in town for anything comparable -- if there is anything comparable -- and at the end of 30 years the owner has said he'll give it to us for a dollar.

Above all, though, its openness reflects Hydro's approach or philosophy and its efforts to adapt to this strange and wonderful world we're living in. With that wall-less open space concept I mentioned, we have carried the open door policy to the ultimate. When I move in, in two weeks, I'll be the first Chairman in Hydro's history to be without any door at all. It's what you might call a sign of the times - and it's just about as far as we can go.

Robert Taylor, Chairman of Ontario Hydro, in a speech to the Canadian Club of Toronto today (Nov. 17, 1975), said:

"Knowing what you want is easy. The difficult part is knowing what you can afford, and I think we, the people of Ontario, have finally bumped up against the hard fact that we can no longer afford unremitting growth of electric energy . . . that has become ingrained in our way of life. The resources available and the tradeoffs with other goals, not the amount of energy that our economy and our people are likely to use if it is available, have become the overriding considerations." (page 13)

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