

**From Hydro Privatization to Non-Profit Status—
A Slight Shift of Business Opinion**

**CIBC/Chamber Weekly CEO/Business Leader Poll
by COMPAS in the *Financial Post*
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**COMPAS Inc.
Public Opinion and Customer Research**

Introduction

In the days that followed Ontario Premier Ernie Eves's announcements of rebate cheques and price caps, Canadian CEOs and business leaders were asked to share their thoughts on the deregulation of Hydro One, the transmission utility. Compared to six months ago, the balance of business preference appears to be shifting away from privatization towards not-for-profit status for the utility.

Quite apart from their own recommendations, business leaders tend to see recent policy changes in Ontario as signalling an end to free markets for hydro in the province.

These are the key findings from the current web-survey of CEOs and other business leaders conducted by COMPAS on behalf of the *National Post* under sponsorship of the Canadian Chamber of Commerce.

Balance Shifting from Privatization to Not-For-Profit

There is no consensus among business leaders about what should be done by hydro in Canada's biggest province, but the balance of opinion seems to be shifting slightly away from privatization in favour of a non-profit option. If they had their choice, 38% of respondents would have Hydro One remain a crown corporation, 30% would privatize the transmission utility, and 19% would turn it into a non-profit organization, as outlined in table 1. Only a minute proportion (5%) of business leaders would like to see Hydro One become an income trust (table 1).

The proportion of respondents who feel that Hydro One should be privatized has dropped 17 percentage points since May, and the number of business leaders who feel it should be turned into a non-profit organization has increased 15 percentage points since May, as demonstrated in table 1.

Respondents volunteered a number of passionate comments:

Services that are meant to serve the citizens first and foremost should not be managed by profit-making entities and not be owned by foreign or trans-national corporations.

Although a diehard capitalist who believes that market forces will always create fair pricing/supply & demand, free market structure should only be for consumables that the consumer has an option to buy. Essential services should not be left to float in a free market.

Energy is as essential to economic and human survival as oxygen. Until some mechanism is in place to assure adequate supply at an affordable price, the unfortunate reality is that public/government intervention and subsidy is necessary.

Hydro One should become more accountable for its expenses especially executive compensations. It should operate in a fashion



similar to a non-profit but with an annual budget or reserve component to replace/repair existing facilities.

Even as a Crown Corporation, Ontario Hydro was extremely inefficient and costly but at least the cost was spread over a broad base, rather than just the consumers.

*Table 1: It is sometimes said that electricity is key to the Canadian economy and Ontario's electricity policy is especially important. If you had your choice, would Hydro One, Ontario's transmission utility...[ROTATE]
[CHECK ONE]*

	May 10, 2002	Nov 15, 2002
Remain a crown corporation	31	38
Be privatized	47	30
Turn into a non-profit	4	19
Become an income trust	5	5
DNK/Refused	13	9

New Policies May Mean the End to a Free Market for Ontario Hydro

On balance, business leaders tend to see recent Ontario government hydro decisions as a move away from free markets in electricity. Slightly more than half of Canadian business leaders (55%) believe that Ontario Premier Ernie Eves's announcement of a new policy of a price ceiling and tax rebates to consumers is an indicator of the end to free market policy for hydro in Ontario, as shown in table 2. A third of respondents do not see this as the end to free market policy, and the remaining 14% are unsure as to what the announcement means for hydro policy in Ontario (table 2).

A number of respondents offered very detailed thoughts about the structuring of hydro, including concerns about the under-capitalization of the electricity system:

For the free market to operate, all aspects of the utility system must be deregulated. If certain aspects of the delivery/pricing network remain regulated, the prices will be artificial and little or no benefit will ever be achieved.

I am very concerned that the policy of price caps for consumers will lead to similar problems as those experienced not too long ago in California (which also price-capped consumers). Residential and



small-business electricity customers need to be put onto time-of-day meters so that there will be an incentive to move power usage to off-peak times when possible.

Table 2: As you know, the Mike Harris government sought to create a free market for hydro in Ontario. The new Ernie Eves government has just announced a new policy of a price ceiling and rebates to consumers. Does this new policy mean an end to free market policy for hydro in Ontario?

	%
Yes	55
No	31
DNK/Refused	14

Business Leaders Divided on the Details

In their views about the details of hydro policy, particularly on the issues of capital and being a continental energy player, Canadian business leaders remain as divided as they were six months ago. As shown in table 3, the following three policy statements elicited middling levels of agreement and disagreement from respondents:

- Hydro One won't be able to accumulate the money required to upgrade its facilities for the next generation;
- The original idea for privatizing Hydro One was a good idea because Hydro One needs a mammoth influx of capital to repair and upgrade its transmission capacity; and
- The original idea for privatizing Hydro One was a good idea because Hydro One could have become a major continental energy player, which could have meant cheaper energy in the long run and a healthier energy sector for Canada.



Table 3: Using a 7 point scale where 7 means you agree a lot and 1, the opposite, how do you feel about each of the following criticisms of the new Ontario policy? [ROTATE]*

	Mean	7	6	5	4	3	2	1	DNK
Hydro One won't be able to accumulate the money required to upgrade its facilities for the next generation**									
Nov 15, 2002	4.3	9	18	18	13	11	9	8	16
May 10, 2002	4.6	16	18	14	12	8	6	9	17
The original idea for privatizing Hydro One was a good idea because Hydro One needs a mammoth influx of capital to repair and upgrade its transmission capacity***									
Nov 15, 2002	4.3	10	16	17	15	8	11	9	13
May 10, 2002	4.4	11	15	16	16	11	8	7	18
The original idea for privatizing Hydro One was a good idea because Hydro One could have become a major continental energy player, which could have meant cheaper energy in the long run and a healthier energy sector for Canada****									
Nov 15, 2002	4.0	12	16	16	8	8	16	14	11
May 10, 2002	4.3	12	18	17	12	6	12	11	11

*Note: In May the question was worded, "using a 7 point scale where 7 means you agree a lot and 1, the opposite, how do you feel about each of the following criticisms of the cancellation of the IPO? [ROTATE]"



**Note: In May the criticism was worded, “canceling the IPO is a bad idea if it means turning Hydro One into a non-profit or an income trust because neither type of organization will be able or allowed to raise the kind of money required to upgrade Hydro One for the next generation”

***Note: In May the criticism was worded, “the IPO for Hydro One was a good idea because Hydro One needs a mammoth influx of capital to repair and upgrade its transmission capacity”

****Note: In May the criticism was worded, “the IPO for Hydro One was a good idea because Hydro One could have become a major continental energy player, which could have meant cheaper energy in the long run and a healthier energy sector for Canada”

Methodology

The *National Post*/COMPAS web-survey of CEOs and leaders of small, medium, and large corporations and among executives of the local and national Chambers of Commerce was conducted November 12-14, 2002. Respondents constitute an essentially hand-picked panel.

Because medium and small companies are more numerous in the economy and hence among Chamber membership, the actual respondents in this consultative panel are drawn more from these strata than from the stratum of the largest companies. Because of the small population of CEOs and business leaders from which the sample was drawn, the study can be considered more accurate than comparably sized general public studies. In studies of the general public, surveys of n=173 are deemed accurate to within approximately 8 percentage points 19 times out of 20. The principal and co-investigators on this study are Conrad Winn, Ph.D. and Jennifer McLeod.

