Ontario Leaders Play Loose With the Real Cost of Juice

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John Tory does not speak in sentences, even paragraphs. The man who wants to be Ontario's next premier speaks in chapters. Ask him about health costs, and prepare for a dissertation on why emergency rooms are stuffed with people who shouldn't be in them. Ask about his scheme to fund religious schools, and Mr. Tory will take you on a tour of history, back to 1867 and the Fathers of Confederation.

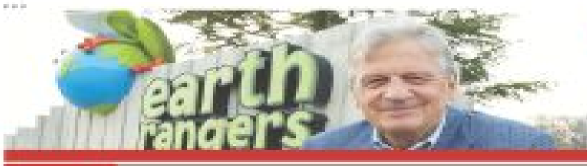
Ask him about nuclear power, and ... on second thought, don't ask him about nuclear power. The province's creaking electrical grid is one of the hidden issues of the Oct. 10 election campaign. The leaders would rather talk about other things, and that goes even for the verbose chief of the Progressive Conservatives.

Naturally, he's pleased to remind us all of Liberal Premier Dalton McGuinty's busted pledge to shut down all of Ontario's coal-fired generators by 2007. "He wasted four years trying to cover up for what was a grossly irresponsible promise that he made," Mr. Tory said. All right, then, what would the Conservatives do? The answers aren't reassuring.

That the province is heading toward a power crunch, with or without coal plants, is obvious. Norm Rubin of Energy Probe, an energy and utility watchdog, says the province can credit "dumb luck" for the fact blackouts are so rare. Government-owned Ontario Power Generation last year relied on nukes for 44 per cent of its power. Hydroelectric represented 32 per cent and dirty, rotten fossil fuels most of the rest. Renewables are still a marginal source of electricity in Ontario.

The problem is the nukes are getting old, and they've never been terribly reliable to begin with. Coal has become politically incorrect; natural gas is expensive and so is wind. By 2025, the gap between what the province will need and what its current generators can provide will be huge, perhaps 15,000 megawatts (MW). It's going to take tens of billions of dollars to fill the need.

Who takes the risk, and how will it be built? Those are two huge questions but you'd never know it from reading the pap in the parties' platforms. If wishful thinking built generators, Ontario's politicians would have enough power to keep the Eastern Seaboard from freezing in the dark.



Onex buys Husky

Robert Schad bows out, but his employee-friendly legacy lives on

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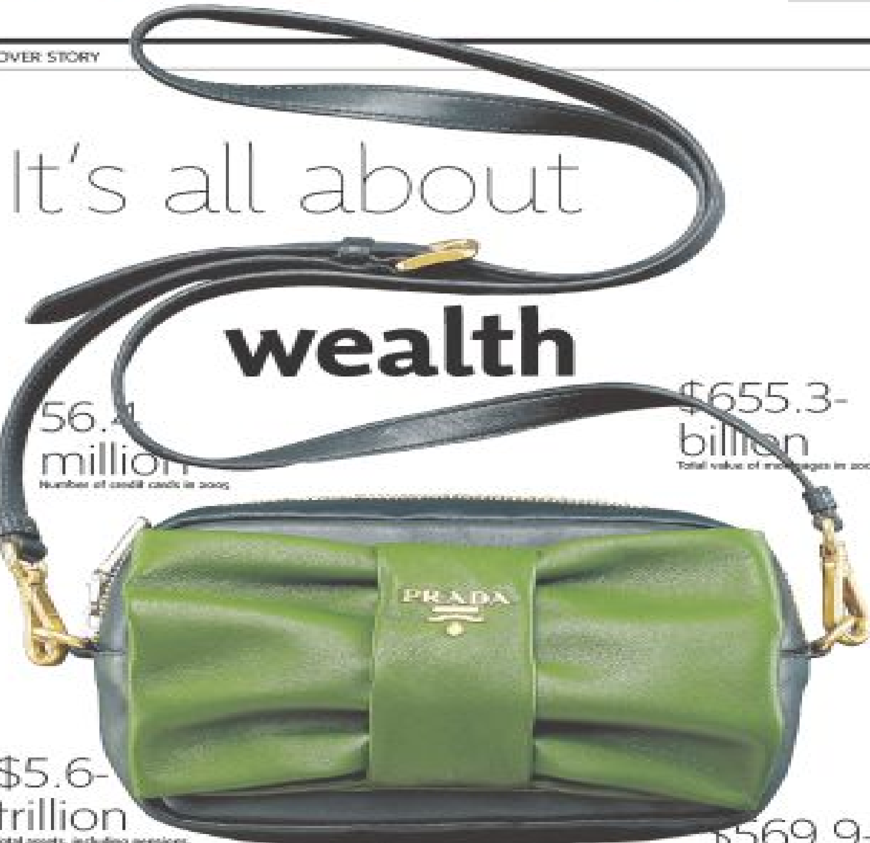
Report on Business

S&P/TSX	Dow	Nasdaq	Dollar	Gold	Oil
14,098.89	13,895.63	2,701.50	100.52	750.00	81.66
-30.84	-17.31	-8.09	+0.66	+10.10	-1.22

COVER STORY

It's all about wealth



56.4 million
Number of credit cards in 2005

$655.3-billion
Total value of mortgages in 2005

$5.6-trillion
Total assets, including pensions, stocks, bonds and residences

$136.5-million
Charitable donations for 2006

$569.9-billion
Total value of mutual funds in 2005

The battle for DundeeWealth is only the beginning. Banks are going to new lengths to own a piece of Canadians' wealth, experimenting with services from estate planning to advice on health care – all for a fee, of course. These aren't your old, buttoned-down bankers. **Tara Perkins** reports. **Page B4-5**

Forget crystal balls. Omens can be found in good old TED spread

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As the U.S. dollar plumbed new depths yesterday against the euro and other major currencies and woes stemming from the U.S. mortgage mess continued to mount, the question in the marketplace was not if, but when the next major financial crisis would hit.

To which we would add: Will we have enough warning to take cover from the coming storm? And what form should that shelter take?

It's certain that we can't rely on central bankers or other government officials to clue us in. Most are still reassuring the public that all is right with the world and that there will be little economic spillover from the turmoil in the credit and currency markets.

Two days after Bank of Canada Governor David Dodge said the beleaguered credit market was getting back to normal, the central bank showed that the situation is anything but normal when it poured nearly $1-billion into the money markets to stabilize rates.

Dealing with a separate credit issue, the European Central Bank had to provide another €32.0-billion ($45.2-billion) in emergency lending to meet the borrowing needs of banks this week, which means they couldn't get the cash at a reasonable rate from other banks.

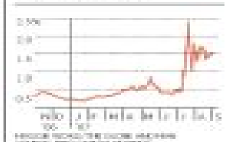
That's a bad sign, because if anyone knows whether a financial institution is harbouring buckets of bad mortgages and other junk among its supposedly high-quality assets, it's another bank.

There's a way for investors to measure this lack of confidence called the TED spread, which has largely fallen into neglect in recent years. Mention this gauge of financial system health to a bunch of MBA students today and they are apt to look perplexed. Some may even wonder why you're talking about bed linens. All of which upsets Donald Coxe to no end.

"It was my guiding light," says the esteemed author and global portfolio strategist with Bank of Montreal. He credits it with keeping his job on Wall Street 20 years ago when he used it to correctly forecast the 1987 market crash. And Mr. Coxe insists that it still has considerable value today, despite vast changes in the global financial system in recent years.

The TED spread originally was the difference between interest rates on three-month futures contracts for U.S. Treasuries and Eurodollars with identical expiration months. The higher the spread between T-bills and Eurodollar rates, the greater the perceived risk of defaults. U.S. Treasuries are considered risk-free, while Eurodollar rates reflect the risk that lenders won't get paid back.

The TED spread



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The Chicago Mercantile Exchange dropped T-bill futures this past summer due to lack of interest, leaving dedicated TED followers to rely on the less-precise comparison of cash bills to Libor (London interbank offered rate). But it still does the forecasting job, as the summer's events proved.

Before the credit crunch hit with full force, the TED spread was at a benign level of about 0.40 per cent. But it soared to a high of 2.40 in August, a level not seen since 1987 crash, and stood at 2.25 the day of the big meltdown. It soon fell back to the 1.30 level, before creeping back up. Yesterday, it clocked in at close to 1.45. So it comes as no surprise to the shrinking band of TED fans that central banks would still be facing crunch issues.

"If the banks aren't sure a bank can meet a claim, they stop advancing money to each other and the TED spread jumps," Mr. Coxe says. "So it tells you when it is that the banks don't trust each other."

The world of financial liquidity has changed dramatically in just a few short years. Today, there are other huge pools of international capital denominated in yen and euros, which, collectively, dwarf the Eurodollar market for seekers of short-term capital. Neither existed during the last major credit crisis nearly a decade ago. Another twist is the ability of traders to move millions electronically into other currencies at blinding speeds. But for all that, if the good old TED spread widens again beyond, say, 2.75, it's a safe bet that the system has yet to repair itself.

The TED is not going to be the only alarm bell that goes off if things spiral out of control. Others to watch include the Japanese yen strengthening, gold prices skyrocketing and U.S. financial stocks plummeting. But if the TED takes off, it will definitely be time to lower the lifeboats.

PORTFOLIO STRATEGY

And the top index beaters are ...

This week, Rob Carrick hands out lifetime achievement awards to mutual funds that have beat the index consistently over the past 15 years. These funds form a small minority, but they do exist, and it's worth them giving their due.

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ME AND MY MONEY

She can't afford to be greedy

Sui Fong Wong is a stock and options trader who works part time at Toronto's Pearson International Airport café. Patient and never greedy, she has achieved a rate of return of more than 50 per cent a year in recent years.

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The New Democrats want "safe, green, renewable energy instead of nuclear mega-schemes." Well, don't we all? The Liberals' policy book doesn't even mention the word nuclear. (It does talk about getting rid of coal - seven times in 42 pages.) Nuclear is a modest part of the Grit solution, once you get past all the rhetoric about "cleaner and greener."

Then there's Mr. Tory's plan, which in some respects is the bravest, or at least the most honest. It contains the usual nod to windmills and other renewable sources of energy. But it admits eliminating coal isn't going to happen soon, so the Conservatives propose to install clean air technology at Nanticoke, OPG's biggest coal-fired plant, to remove some of the nastier smog-producing stuff. As for nukes? We need new ones, says the PC leader, while keeping the details fuzzy.

"I will say this - Mr. McGuinty has suggested he thinks two reactors will be sufficient. I believe the number is in excess of that," Mr. Tory told The Globe and Mail's editorial board this week. He says that if elected, he'd go to Jan Carr, head of the Ontario Power Authority, and ask for an opinion. "I am absolutely confident that the number that will come back, in terms of how much nuclear you have to invest in, will be more in the order of six or eight reactors, as opposed to two."

That's quite a statement in a province where voters still remember Ontario Hydro's nuclear-fuelled bankruptcy and the disastrous, multibillion-dollar effort to restart the Pickering reactors east of Toronto - even more so when Mr. Tory says he doesn't really know how much it will cost. "If John Tory really thinks he's going to make the [power] grid better by expanding nuclear power in Ontario, he and his genius advisers haven't been paying attention," Mr. Rubin says.

But the bigger mystery is why all of the parties leaders seem to believe that, having failed dismally with a centrally planned power system, the solution is even more central planning, with Queen's Park demanding windmills here, nukes there and solar panels over there. Oh, and don't forget the price caps. Even if you own the most ancient, juice-sucking appliances, and run them on the hottest day of July when the power grid is groaning, you can't be forced to pay more than 6.2 cents per kilowatt-hour under the province's price rules. Smart meters, which allow utilities to charge more for electricity at peak times, are being rolled out, but even those prices are fixes.

Some have estimated the cost of rebuilding Ontario's power supply at $40-billion or more. Private money would come in handy, but most of it's going to be invested in places that no longer use Soviet-style utility policy. The McGuinty Liberals, it seems, don't understand this and the New Democrats have never understood it. The Conservatives could have distinguished themselves with a plan to bring market economics back to the power grid, but they missed it.

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