

\$105,000 bought Hydro an e-mail

Message is only record of Tory's efforts

By MARTIN MITTELSTAEDT

UPDATED AT 9:06 PM EDT

Tuesday, Mar. 23, 2004

TORONTO -- A senior Ontario Progressive Conservative Party insider received \$105,000 from Hydro One under an untendered contract, and the only written record the utility has for his work is a single-page e-mail produced during a secret privatization campaign at the government transmission company.

Advertisement

The high-priced e-mail was obtained by The Globe and Mail under a Freedom of Information Act request for all records Michael Gourley produced for the company. The only record Hydro One had for this contract was the e-mail.

It was written to former Hydro One president Eleanor Clitheroe in early 2002, and included advice on generating favourable publicity on the utility's proposed privatization.

The e-mail included such insights as "governments should not be in business" because Crown corporations are subject to political pressure rather than market forces.

Despite the high price tag, the e-mail didn't contain overeloquent prose and had a lengthy incoherent passage.

Mr. Gourley, a former Ontario deputy finance minister, contended that government firms put taxpayer dollars "at risk unnecessarily! Ministries and crown corporations invest taxpayer dollars without the discipline required by investors on lenders who merely look to Government (i.e. other taxpayers) to backstop the investments through government guarantees regardless of the merit or worth of the investment."

Mr. Gourley did not return a phone call seeking comment on the contract, which was made with his consulting firm, Jems Associates Ltd., a company he runs out of his Toronto home.

Mr. Gourley was part of a group of four top Progressive Conservatives in Ontario who individually or through their companies shared \$5.6-million in untendered contracts with the government utility when it launched a secret program in 1999 to lobby the government to sell the company to investors.

The utility initially refused to reveal the work the Tories performed, saying this would divulge commercial secrets or sensitive advice to the government. However, the utility recently released the documents after The Globe appealed its ruling.

Besides Mr. Gourley, the consulting contracts went to Leslie Noble, co-chair of the Ontario PC election campaign; Paul Rhodes, communications director of the election campaign, and Tom Long, a senior PC strategist. Mr. Gourley also signed contracts on behalf of a major consulting firm that received \$3.7-million from the utility.

But in return for this high-priced consulting advice, the records indicate Hydro One often received paltry amounts of written work and advice contrary to the financial interests of provincial taxpayers.

Mr. Rhodes received \$335,237, but Hydro One only has 81 pages of work under his contract.

A key part of Mr. Rhodes's work was a memo, frequently rewritten by Hydro One executives, claiming the transmission utility was such a terrible business that the province had to quickly sell it to investors, rather than risk big losses by continuing to own it.

Although Mr. Rhodes has no utility experience, he claimed in one memo written in early 2000 that Hydro One's prospects were so dire it faced a "death spiral," an unusual assessment for a monopoly business that is often prized by investors. There has been no public indication of a financial collapse at Hydro One since then.

"The best way to avoid the withering of [Hydro One] and the resultant political liability is through the timely divestment of the corporation," he wrote.

Mr. Rhodes also advised Sir Graham Day, then utility chairman, to use fawning and flattery to convince then-premier Mike Harris to approve the privatization. According to one memo, Sir Graham was supposed to tell Mr. Harris, a politician of international renown.

In the memo, for a meeting between the two men on Aug. 17, 2000, Mr. Harris and Mr. Day were referred to by their initials, GD.



Trade by
Numbers

Take a peek
behind the
corporate
curtain

Take control
of your
investing
future!

Click now for
our free
eMagazine

Trade by

"Stroke MDH so that GD is perceived to be giving him an endorsement and credibility and not coming in to tell him how to do it." Mr. Day was also to tell Mr. Harris that he was to grab Hydro problems and do something about it."

Mr. Harris authorized the privatization in 2001, but his move was reversed in mid 2002 by his successor, then-premier

Mr. Rhodes also told the company's senior executives to wine and dine reporters to encourage them to report favourably on privatization, although after this recommendation he gave an unflattering appraisal of journalists, characterizing them as "simple" messages that reporters would be able to understand.

Mr. Long, the senior Conservative strategist, was associated with a head-hunting firm and an energy consulting company that together received \$1.3-million under the contracts.

Under the contract for one of the firms, Monitor Group, Mr. Long co-wrote a memo advising Ms. Clitheroe to deliberately underprice the Hydro One stock by hundreds of millions of dollars to make the privatization a boon for investors by giving them a stock that would be almost certain to rise in value after the sale.

The memo warned that if the government were to obtain top dollar for its stock, "we increase the risk that factors outside our control, like an adverse regulatory decision, could lead to underperformance, and seriously compromise the company's success after privatization. If that happens, all of us . . . are going to be remembered for delivering a flawed [initial public offering], not for delivering an extra few hundred million to the treasury."

For Ms. Noble, Hydro One has few documents for her \$250,000 of work. The only records were her editing of the three-page memo originally produced by Mr. Rhodes on how bad a business Hydro One was, a three-page e-mail on the pros and cons of privatizing the utility, and two slide presentations.

In her slides, Ms. Noble gave an insider's view of the Harris cabinet table, outlining which ministers would be on side with the privatization, and those who wouldn't. For those who would support the privatization, such as Tory hard-liners Chris Stockwell, Bob Runciman, and John Baird, Ms. Noble recommended the utility use "social invitations" to encourage their favour.

Who's behind the deal

Paul Rhodes

Who he is: Communications director of the Conservative election campaign and former spokesman for premier Mike Harris.

What he received: \$335,237 under an untendered \$15,000-a-month consulting contract for communications advice over an 18-month period, including a lump sum of \$56,000 for "strategic communications advice."

What Hydro One got: Including e-mails, 81 pages. The key part of his work was a memo, frequently rewritten by Hydro One executives, claiming that the utility was a terrible business prospect and that the province had to privatize it immediately. He also wrote advising Sir Graham Day, then utility chairman, to use fawning and flattery to convince Mr. Harris to approve the privatization.

Mike Courley

Who he is: Former deputy finance minister and close adviser of former premier Ernie Eves.

What he or his corporate entities received: A total of \$3.7-million, including \$105,000 for an untendered consulting contract with his consulting firm, Jems Associates Ltd. The contract called for total fees of \$80,000, including \$40,000 for the first month and \$10,000 for each subsequent month. There is no explanation for the extra spending.

What Hydro One got: A single one page e-mail to former Hydro One president Eleanor Clitheroe discussing the best ways to present six points made in a previous memo arguing in favour of the privatization. Despite the high price tag, the e-mail wasn't overly eloquent or easy to understand.

Leslie Noble

Who she is: Co-chair of the Conservative election campaign.

What she received: \$250,000 under an untendered contract that paid her \$13,000 a month for advice on the privatization.

What Hydro One got: Under the contract, the only written work Hydro One received for the payment was her editing of a three-page memo originally produced by Mr. Rhodes, warning of the high risk to the government of continuing to own the utility. She also produced a three-page e-mail on the pros and cons of privatizing the utility, and two slide presentations.

In her slide presentations, Ms. Noble gave a kind of insider's view of the Harris cabinet table, outlining which ministers would be on side with the privatization, and those who wouldn't.

Tom Long

Who he is: Senior Conservative strategist.

What he received: Two of his firms that do head hunting and energy consulting received \$1.3-million.

What Hydro One got: Under the consulting contract for one of the firms, Monitor Group, Mr. Long co-wrote a memo, with the former director of policy in Mr. Harris's office, John Toogood, advising Ms. Clitheroe to deliberately underprice the stock to be sold by the utility

Numbers



Powered by:
GlobeinvestorGOLD

by hundreds of millions of dollars to make the privatization successful for investors.

According to the memo, Tory insiders were more concerned with the returns to be earned by shareholders in Hydro One after privatization than ensuring that taxpayers received top dollar for the asset the government was selling.



© 2004 Bell Globemedia Publishing Inc. All Rights Reserved.