



Third Session — Thirty-Second Legislature
of the
Legislative Assembly of Manitoba

STANDING COMMITTEE
on
PUBLIC UTILITIES
and
NATURAL RESOURCES

33 Elizabeth II

Chairman
Mr. C. Santos
Constituency of Burrows



MG-8040

VOL. XXXII No. 8 - 2:00 p.m. MONDAY, 23 JULY, 1984.

MANITOBA LEGISLATIVE ASSEMBLY**Thirty-Second Legislature****Members, Constituencies and Political Affiliation**

Name	Constituency	Party
ADAM, Hon. A.R. (Pete)	Ste. Rose	NDP
ANSTETT, Hon. Andy	Springfield	NDP
ASHTON, Steve	Thompson	NDP
BANMAN, Robert (Bob)	La Verendrye	PC
BLAKE, David R. (Dave)	Minnedosa	PC
BROWN, Arnold	Rhineland	PC
BUCKLASCHUK, Hon. John M.	Gimli	NDP
CARROLL, Q.C., Henry N.	Brandon West	IND
CORRIN, Q.C., Brian	Ellice	NDP
COWAN, Hon. Jay	Churchill	NDP
DESJARDINS, Hon. Laurent	St. Boniface	NDP
DODICK, Doreen	Riel	NDP
DOERN, Russell	Elmwood	IND
DOLIN, Hon. Mary Beth	Kildonan	NDP
DOWNEY, James E.	Arthur	PC
DRIEDGER, Albert	Emerson	PC
ENNS, Harry	Lakeside	PC
EVANS, Hon. Leonard S.	Brandon East	NDP
EYLER, Phil	River East	NDP
FILMON, Gary	Tuxedo	PC
FOX, Peter	Concordia	NDP
GOURLAY, D.M. (Doug)	Swan River	PC
GRAHAM, Harry	Virden	PC
HAMMOND, Gerrie	Kirkfield Park	PC
HARAPIAK, Harry M.	The Pas	NDP
HARPER, Elijah	Rupertsland	NDP
HEMPHILL, Hon. Maureen	Logan	NDP
HYDE, Lloyd	Portage la Prairie	PC
JOHNSTON, J. Frank	Sturgeon Creek	PC
KOSTYRA, Hon. Eugene	Seven Oaks	NDP
KOVNATS, Abe	Niakwa	PC
LECUYER, Hon. Gérard	Radisson	NDP
LYON, Q.C., Hon. Sterling	Charleswood	PC
MACKLING, Q.C., Hon. Al	St. James	NDP
MALINOWSKI, Donald M.	St. Johns	NDP
MANNES, Clayton	Morris	PC
McKENZIE, J. Wally	Roblin-Russell	PC
MERCIER, Q.C., G.W.J. (Gerry)	St. Norbert	PC
NORDMAN, Rurik (Ric)	Assiniboia	PC
OLESON, Charlotte	Gladstone	PC
ORCHARD, Donald	Pembina	PC
PAWLEY, Q.C., Hon. Howard R.	Selkirk	NDP
PARASIUK, Hon. Wilson	Transcona	NDP
PENNER, Q.C., Hon. Roland	Fort Rouge	NDP
PHILLIPS, Myrna A.	Wolseley	NDP
PLOHMAN, Hon. John	Dauphin	NDP
RANSOM, A. Brian	Turtle Mountain	PC
SANTOS, Conrad	Burrows	NDP
SCHROEDER, Hon. Vic	Rossmere	NDP
SCOTT, Don	Inkster	NDP
SHERMAN, L.R. (Bud)	Fort Garry	PC
SMITH, Hon. Muriel	Osborne	NDP
STEEN, Warren	River Heights	PC
STORIE, Hon. Jerry T.	Flin Flon	NDP
URUSKI, Hon. Bill	Interlake	NDP
USKIW, Hon. Samuel	Lac du Bonnet	NDP
WALDING, Hon. D. James	St. Vital	NDP

LEGISLATIVE ASSEMBLY OF MANITOBA
THE STANDING COMMITTEE ON PUBLIC UTILITIES AND NATURAL RESOURCES

Monday, 23 July, 1984

TIME — 2:00 p.m.

LOCATION — Winnipeg, Manitoba

CHAIRMAN — Mr. C. Santos (Burrows)

ATTENDANCE — QUORUM - 6

Members of the Committee present:

Hon. Messrs. Cowan and Parasiuk

Messrs. Brown, Enns, Filmon, Fox, Harapiak,
Malinowski, Manness, Santos and Scott

APPEARING: Mr. J. Arnason, President and Chief
Executive Officer of Manitoba Hydro

Mr. S. Cherniack, Chairman of the Board

Mr. M. Eliesen, Deputy Minister of Department
of Energy and Mines

MATTERS UNDER DISCUSSION:

Annual Reports of Manitoba Energy Authority
and Manitoba Hydro-Electric Board for year
ended March 31, 1983

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CLERK OF COMMITTEES, Ms. Carmen DePape:

Committee come to order. Before the committee commences its deliberations for today, I have here the resignation of our former Chairman, Mr. P. Eyer. Are there any nominations for a new Chairman?

Mr. Harapiak.

MR. H. HARAPIAK: I would like to move that Conrad Santos, the Member for Burrows, replace the Member for River East, Mr. Eyer, and Mr. Santos be named Chairman.

MADAM CLERK: Any further nominations? Seeing none, Mr. Santos would you take the Chair?

MR. CHAIRMAN, C. Santos: Members of the committee, we have received two more resignations from the committee, one from Mr. Ransom, and another from Minister Schroeder. Are there any other nominations?

Mr. Harapiak.

MR. H. HARAPIAK: Mr. Chairman, I move that Don Scott, the Member for Inkster, replace Mr. Schroeder, the Member for Rossmere.

MR. CHAIRMAN: Is it acceptable to the committee? (Agreed)

What about the replacement for Mr. Ransom? Are there any nominations?

Mr. Enns.

MR. H. ENNS: Mr. Chairman, I would like to place my illustrious Leader, Mr. Gary Filmon, on this committee, replacing Mr. Ransom.

MR. CHAIRMAN: Thank you. Is that acceptable to the committee? (Agreed)

We shall start the deliberations of the committee with a short statement from the Minister responsible.

HON. W. PARASIUK: I think we had left off just toward the end of an assessment on Northern States Power. We had presentations by the Manitoba Energy Authority and Manitoba Hydro. I think the information was to try and deal with all of the power sales and negotiations, and then move on after that, to specifics that people might have relating to Hydro. Some people had questions relating to the ice storm and things like that; if they want to raise those questions, I think they should be raised after we have concluded the major sales and the Manitoba Energy Authority Report, and then we can go on to specifics of Hydro. Is that agreeable? (Agreed)

MR. CHAIRMAN: The Leader of the Opposition.

MR. G. FILMON: Mr. Chairman, we were hoping that perhaps we could deal with some of the more minor issues first, in view of the fact that probably we should have done that had we known that the committee would be sitting another time and that certain people have to be brought in from out of the city for the meetings. We would prefer to clear up some of the minor matters first and then leave the question of the major development projects until later in case that should go over to another session.

HON. W. PARASIUK: I think we should proceed with discussing the major sales; that's the major reason why people had said in the House they wanted the committee to meet again. We are meeting this afternoon, if necessary, we'll meet tonight. Surely, in this session and the evening session we should be able to clear up any matters pertaining to the matters before the committee.

MR. G. FILMON: Mr. Chairman, is the Minister stating that officials of Manitoba Hydro will not deal with whatever issues we want to bring before them?

HON. W. PARASIUK: Mr. Chairman, I'm saying that we are going to proceed to deal with the Manitoba Energy Authority Report. We're going to deal with the matters relating to the export sale. We will deal with matters relating to aluminum discussions, if that's what the members want to discuss, and we will then move on to discuss other export sale discussions. We could get that cleared up and then we can get into the specifics if anyone wanted to raise specifics relating to particular

Hydro matters. That's what we had indicated some time ago in our earlier presentations to the committee, going back into the month of June. I believe it was certainly acceptable then and that's the process that I thought we were following today.

MR. G. FILMON: Mr. Chairman, in view of the fact that we are not able to predict exactly how long we might be spending on these various issues; in view of the fact that, for instance, even since we last sat, there have been a number of issues to do with the operation of the utility and various decisions that they've been making during the past month and areas of concern that have arisen, it seems to me that we should be dealing with it in whatever manner is most expedient.

The opposition has questions on all sorts of issues of concern with respect to the Hydro utility and the Manitoba Energy Authority and we would like to just proceed in whatever manner we believe is appropriate. As long as it has to do with the topic at hand and is a matter before the committee, we don't believe we ought to be constrained by the Minister.

I can't recall in the past where the Minister has dictated what types of question in what order of agenda that the committee should consider. I can guarantee the Minister that everything we will discuss will be relevant to the operation of the utility and/or the Manitoba Energy Authority. I think he is just prolonging the committee's time by attempting to force his own agenda on the committee. I would recommend that we just get on to the business at hand as quickly as possible and let the matters unfold as they should.

HON. W. PARASIUKE: Mr. Chairman, take a look. We brought a number of staff to deal with the particular questions that have been raised by the opposition. We're here to deal with the matters that they raised. We left off the last committee meeting dealing with questions pertaining to the Northern States Power sale.

We have indicated we're quite prepared to deal with all of those, get that concluded so that staff can go on to the tasks that they have in their office to get their work done, and then we can get into the specifics of what members had referred to, of smaller matters pertaining to the operation of Manitoba Hydro. We can certainly proceed with that and conclude that, but I think it's the best division of staff time and committee time if we proceed in that way.

We started off with the presentation of the Manitoba Energy Authority. We indicated that questions were raised of Manitoba Hydro in relation to these sales. Manitoba Hydro made its presentation in that context, then questions were raised in connection with the sales. That's why I'm saying we should proceed to deal with the report of the Manitoba Energy Authority and have that concluded, then move onto the report of the Manitoba Hydro. It seems to be a very logical, normal way for us to proceed.

The Leader of the Opposition is saying that they're not sure what they really want to ask. They're just going to ask questions because they have people who have come in from out of town who might want to raise questions. Well, they're here; they can raise the questions they want with respect to the export sales and surely they can raise the questions that they want

with respect to other Hydro matters, unless, of course, their intention is not to try and conclude the sittings of the committee which, frankly, we have to do.

MR. CHAIRMAN: Mr. Enns.

MR. H. ENNS: Mr. Chairman, surely we can resolve this issue. I assure the Minister, through you, Mr. Chairman, that there are several matters that we wish to deal with. I might say, in a very traditional way, we have managed to work at the committee stage in a less structured way than in the House and that's one of the reasons why we have these kinds of meetings in this committee setting in Room 255 or Room 254. It has also been traditional that the opposition who are interested in asking the questions, be allowed to ask them in an order and on subject matter that is of interest to them.

I can assure the Minister that we will very quickly be coming back into it, through another avenue to the main question that is of concern to all of us, namely, the proposed Hydro sales and if we quit this debating about the order, we can get to it.

MR. CHAIRMAN: I think the most rational procedure . . .

MR. H. ENNS: I might say, Mr. Chairman, our alternative - and I don't like to remind the Honourable Minister - but he should know by now that in this respect, opposition have a way of getting their way. We will insist on discussing those matters that we wish to discuss and then discuss those matters that we want to discuss at the time the committee is called upon to report, which will include the major energy sales, Northern States Power sales, Alcoa and the rest of the questions. It is the wish of my Leader and our group to raise a few matters of current concern to Manitobans and ourselves in the opposition with respect to the operations of Manitoba Hydro. I reiterate what my Leader has indicated. They will be germane to the operations of Manitoba Hydro.

HON. W. PARASIUKE: I would like an assurance that we will get to the Northern States Power and other issues today, with a view to concluding it. We are scheduled to meet this afternoon; we are scheduled to meet this evening, if necessary. If I can get that assurance that we will get to those matters, then fine. If I'm not going to get that assurance, if it's a matter of just dragging things out, then frankly we'll deal with this issue and we'll move on to the others later.

MR. CHAIRMAN: The Leader of the Opposition.

MR. G. FILMON: Mr. Chairman, I object to the Minister's suggestion that we are just wanting to drag things out, or that we don't have a plan. We have certain questions that we want to raise today and we want to have them answered. I object to the arrogant tone and attitude of the Minister attempting to impose upon the committee, restrictions as to the order in which these things can be dealt with and the manner in which we can ask our questions, and that whole issue. It is not our intention to prolong this beyond anything

reasonable. We have some questions to be answered and, when they are answered to our satisfaction, then the committee will be finished its business and we'll get to it as quickly and as expediently as possible.

MR. CHAIRMAN: We'll not spend any more time on this warm-up altercation. The most rational thing to do is to start where we left off; second, that we utilize the time of the staff members who are here - we owe an obligation that we utilize their time and their presence here - and then we go on to other matters. Is that agreeable to the committee? (Agreed)

MANITOBA HYDRO-ELECTRIC BOARD ANNUAL REPORT

MR. G. FILMON: Mr. Chairman, I have some questions of the President of Manitoba Hydro, who is here. They have to do with a number of errors in billing that have come to light during the past month or so with respect to billing throughout the province to Manitoba Hydro customers. I understand that some determination has been made by, I believe, the Minister responsible, that certain of these overcharges and wrong billings are to be written off. I'd like to know from the President of Manitoba Hydro what is the amount of the billings that were made in error that have now been written off.

MR. CHAIRMAN: The President of the Manitoba Hydro will try to answer the question.

MR. J. ARNASON: Mr. Chairman, relative to the question and dealing with the sales tax issue, the Manitoba Hydro was acting as a collection agency for the government, going back to 1964, and the sales tax originally applied to all electrically heated buildings, both residential and commercial. In due course that was changed and the sales tax was adjusted so that residential buildings would not be charged a sales tax for their heating component.

In the application of the tax, Manitoba Hydro interpreted the act in a fashion that in due course we found was different to the interpretation by the Tax Department. This came to light after a number of years in which the sales tax had been collected. After discussions with the Tax Department for a period of probably three years, we agreed to reimburse the tax department for taxes that were incorrectly not collected, according to tax department, in the amount of \$450,000, and that included interest.

It was our posture that we should attempt to recover some of this sales tax for those accounts that could be clearly identified. We have sent out bills to some 120 government agencies, boards, commercial enterprises and the total amount of our billing to these various accounts is \$135,000.00.

The interpretation that I have read in some of the news media was that we were trying to collect \$450,000.00. That isn't the case; we are trying to collect \$135,000.00. We have received of that amount, something in excess of \$64,000, and we have some commitments for \$25,000.00. That's the situation as it exists at the moment, and we have received instructions to cancel the billings.

MR. G. FILMON: Mr. Chairman, Mr. Arnason has indicated that there are just about 120 government

agencies, boards and commercial accounts that were approached on this. I believe the matter came to light when there were some individuals who received these billings. Is Mr. Arnason indicating that individual customers were not billed, but only if they were commercial, boards or government agencies they were sent the billing?

MR. J. ARNASON: Yes, the billings were for people who were considered to have a commercial operation, or government agencies, or funded by government.

MR. G. FILMON: Mr. Chairman, the recommendation, or at least the instruction of the Minister, was that these backbillings be cancelled, the indebtedness be erased to these accounts?

HON. W. PARASIUK: I issued those instructions. I must point out that this matter first arose in 1979 when the then Minister of Finance asked that the Manitoba Hydro pay this bill with respect to tax interpretation even though, at the same time, I believe, Winnipeg Hydro was informed that they would not have to pay this type of bill. The matter then was discussed between Manitoba Hydro and Finance officials for about four years, at which time Hydro then decided that they would pay a certain portion of the tax arrears, and then decided that they would backbill.

Apparently, they had been informed by the Department of Finance that, with respect to tax matters, the Statute of Limitations does not apply. I was of the opinion that, since these backbillings dealt with bills that, in many instances, were 10 years old and basically dealt with, in a sense, housing units, that it would be best for the bills not to be collected in the backbilling way.

Also the policy with respect to backbilling, with respect to residences and industrial users, we've continued to operate as in the past. Those are the instructions that I issued.

MR. G. FILMON: Yes, Mr. Chairman, I'm not sure what the Minister's reference was to residences, because the indication of the president was that these billings were only made in the case of commercial operations, government agencies, or boards, or commissions. I'm not sure what the reference was there.

I understand that we were talking about billings that had been made only with respect to these other special accounts and not to individual residences.

MR. J. ARNASON: I think we have two issues here and we should clearly define what we're talking about.

The first part of the question dealt with the collection of revenue tax - that's the sales tax - and my answers were pertaining to that portion only. Then there seems to be another question related to the undercharges and overcharges within Manitoba Hydro for energy. The first part was only to deal with sales tax. Now we're getting into energy where we make an error of some type relative to undercharges or overcharges. That applies to residential, commercial power customers.

MR. G. FILMON: Mr. Chairman, I'm sorry I don't wish to interrupt Mr. Arnason, but I want to say that he may

have interpreted my question as being with respect to sales tax, but I clearly, and I think the records will show, referred to errors in billing. I wish to discuss the whole matter and not just the sales tax matter. I understand that the two are being dealt with in a different sense, so he can proceed to tell me the rationale behind that.

MR. J. ARNASON: Relative to the policy on the under or overbilling, we have some 320,000 customers and over a period of any year, there would be some errors made either on overbilling or underbilling. In terms of overbilling, the corporation reimburses the individual, not only the amount of the overbilling, but interest as well. In terms of the underbilling, we will charge the individual for the amount of the underbilling. Relative to the residential customers, we will go back a period of six months; relative to power or commercial customers, we will go back as far as six years.

As a matter of interest, our experience would be that we would find maybe 100 overcharges or undercharges in any 12-month period. That's a ballpark figure. We find that the number of overcharges is about the same or slightly more than the number of accounts that are underbilled.

MR. G. FILMON: The president, Mr. Arnason, has indicated that there are just perhaps 100 errors that are brought out in a 12-month period. Was this an unusual flurry of errors that appeared to come to light in the last month, or has there been an indication of more than normal errors during the past month as a result of the bringing to light of one or two particular cases?

MR. J. ARNASON: Mr. Chairman, relative to the question raised, I'm not sure how many have been brought to light in the last month and I'm not sure whether any of our staff can answer that question. But no doubt, with the publicity on the sales tax, there have been a number of enquiries raised relative not only to the sales tax issue but also under and overbilling and the method that we have dealt with them in the past.

MR. G. FILMON: Mr. Chairman, there was one matter raised in the Legislature by my colleague, the Member for Arthur, with respect to an improper classification of the residence or the usage on a farm residence. There was another matter that was brought up with respect to - I believe it was a commercial operation in Wasagaming or somewhere up in that area near Clear Lake. I have one here with respect to a residence in Stony Mountain that was zoned 10 Rural and should have been zoned 9 Town, according to the information they have provided me with, and I'm just wondering, as I say, whether there has been more than the normal evidence of errors in billing as a result of this bringing to light of the sales tax problem.

MR. J. ARNASON: It certainly has received a fair amount of publicity and in the last month we've had a number of enquiries on the issue, but in terms of specifics, I cannot give you any statistics to really answer your question.

I might add, Mr. Chairman, that relative to this whole question of underbilling, we have a very clear policy

on it which I covered in part. Having reviewed it over the last few months, there's no doubt that staff are interpreting the policy to the letter of the law. I have reviewed some of the situations that have been brought to my attention and it seems to me that we have to investigate some of the circumstances in greater detail and determine where a hardship might be created, particularly with the small accounts, and provide a little bit of flexibility in the settlement of those accounts. I am instructing my staff to do that and we have done that, I believe, on a couple of accounts.

MR. G. FILMON: Mr. Chairman, in particular, I guess I'm surprised, given the attention that was shone on this particular issue, that Mr. Arnason hasn't determined whether or not there has been an unusual number of errors in billing. The other thing is that, in stating in part the policy of the utility with respect to collection for previous underbillings, he didn't make mention of any interest being added to the previous underbillings. Is there or is there not interest added to the underbillings?

MR. J. ARNASON: Relative to the underbillings for the use of energy for residential accounts, we backbill them without interest. Other accounts we backbill as well without interest. In terms of the sales tax that we were attempting to recover, we were billing them with interest approximating 2.95 percent per annum. This was the interest that had been paid to the province.

So relative to the under and overbilling, we are not charging interest, but we are providing interest on overpayments.

MR. G. FILMON: So no interest is charged on the collection of back underbillings. I wonder if Mr. Arnason could do me the favour of conducting an investigation just to ensure that something hasn't gone awry, that in addition to the incorrect charges on sales tax, that there hasn't been a flurry of wrong classifications that have led to incorrect billings, that this is just a coincidence that these have all come to light as a result of the publicity given to the sales tax error.

MR. J. ARNASON: Since you asked that questions, I've been advised by staff that the number that I had provided of approximately 100 is considered about normal, and there has been no real flurry to indicate that that number will greatly be exceeded in the next year.

MR. CHAIRMAN: Mr. Enns.

MR. H. ENNS: Just a small question, Mr. Chairman. I've had several enquiries coming to me about the services provided to Manitoba Hydro users during this summer. I think most of us are aware that Hydro employees are working on the shortened four-day week, but there are, of course, some customer referral services available, I'm sure. Can the president just perhaps remind us about what kind of phone numbers or calls can be made by persons enquiring of Manitoba Hydro for whatever reasons during the summer months, where the Monday is not being worked? Or are the offices totally closed? Is there no customer referral service available to the public?

MR. J. ARNASON: Relative to the head office situation, I assume that the member was asking about the rural areas rather than head office, but I'll start by answering it relative to the head office and then someone might be able to help me on the details of the field aspect. But in terms of the head office, we do have staff on Mondays, which is a normal day off for staff at head office for the collection of accounts and for information.

Relative to the districts, if there is no one in the district on the sixth floor, any part of that six-floor cycle, then there is a referral to an adjacent district and they would be covering for the district staff that could be off on that particular day.

MR. H. ENNS: Thank you, Mr. Chairman. A question on another subject, Mr. Chairman. On Page 16 of the Manitoba Hydro Report, the breakdown that's provided for where each dollar comes from and where each dollar was used indicates that Hydro, in the year under consideration, spends 49 cents out of every dollar to cover interest charges. I noticed it is interest only, not interest and principal. I assume then that no repayment of principal is included in this figure.

MR. J. ARNASON: That is correct, Mr. Chairman.

MR. H. ENNS: Mr. Chairman, at other meetings of the committee we have had numerous projections of Hydro demand, projections for potential Hydro increases. I can't recall dealing with this question - it may have been in my absence - what projection is there, if any, should the advancement of Limestone proceed? How would that impact on the figure that I'm asking about, namely, the amount, percentage of revenue, that is currently dedicated to interest charges which stands at 49 percent? Once the capital requirements for Limestone come on stream, would that figure change substantially?

MR. J. ARNASON: With the cost of Limestone coming on stream and moving into the operating accounts, then that figure would increase.

MR. H. ENNS: Mr. Chairman, through you to officials of Manitoba Hydro, we get very concerned in government finances when our interest costs rise. I think the Minister of Energy would probably be aware that we are currently running in the government operations at a figure approaching somewhere around 7 percent or 9 percent. Historically, that figure runs between 4 percent and 7 percent. It's a figure though that we ought to all be aware of.

I ask it particularly in view of the question that I asked just previous to this one. Hydro is not paying on any principal at this time; I would assume that the health of the Canadian dollar might have something to do with it. I assume that much of Hydro's borrowing was done so at the time when the health of the Canadian dollar was considerably more robust. I would assume, or I have not heard anything from Manitoba Hydro officials that, at the current level of the Canadian dollar, Manitoba Hydro will not be paying back on any principal or is not planning any substantial principal payments; would that be a fair assumption?

MR. J. ARNASON: Relative to the question asked and the American exchange rate, the cost to Manitoba

Hydro is equivalent to the Canadian cost of borrowing at the time that the borrowing was made, so it really doesn't affect Manitoba Hydro's borrowing in terms of the exchange rate. If the borrowings were made in the States, then we are charged a rate that is equivalent to the Canadian rate at the time that borrowing was made. The government will pick up the difference, whether it's positive or negative, depending on the borrowing.

MR. H. ENNS: Mr. Chairman, I am simply trying to get back at that very substantial cost to Manitoba Hydro and to Manitoba Hydro users of borrowed money, namely, 49 cents out of every dollar that we pay to Manitoba Hydro is currently going for interest costs. The Manitoba Hydro President indicated to us that figure would increase when capital requirements for Limestone became a reality. Coupled with the health of the Canadian dollar and certainly not seeing any immediate change for the better - indeed, if one listens to some economists, it may get a lot worse before it gets better - does the President of Manitoba Hydro share with me a concern about the figure, that 49 percent that it currently is at, that could become considerably higher to the extent that it becomes a very serious fiscal question for Manitoba Hydro?

MR. J. ARNASON: For a number of years, Mr. Chairman, those interest charges have been a very large portion of the total dollar that we receive. I can't precisely answer the question relative to what that interest charge will be a few years down the road when these added capital projects come into our operating costs, but certainly the interest and depreciation have for some time been almost two-thirds of the 66 cents out of every dollar received. It is a fairly high portion, there's no doubt about it.

MR. H. ENNS: Mr. Chairman, I appreciate the president's answer, and the fact that, of course, the depreciation amount should perhaps be considered in concert with it, but I am particularly interested in the interest costs. Can the Manitoba Hydro President tell me, has that figure been exceeded in previous years, 49 percent, from his knowledge?

MR. J. ARNASON: I am advised, Mr. Chairman, that it has been slightly over 50 cents on the dollar.

MR. H. ENNS: Can the President indicate to me when that occurred?

MR. J. ARNASON: The advice I'm getting is that it probably was in 1979, Mr. Chairman, in 1980 and '81 as well.

MR. CHAIRMAN: Mr. Enns.

MR. H. ENNS: One final question, Mr. Chairman, on the same subject matter. Does Manitoba Hydro place any constraints on that particular cost; is there a point at which it becomes just too onerous for a system to consider? If it isn't 50 percent, is it 55 percent, is it 60 percent, is it 70 percent?

MR. CHAIRMAN: Mr. Cherniack.

MR. S. CHERNIACK: Mr. Chairman, I wonder if I could enter this response by pointing out that costs have to be reflected in rates and, as costs of production rise, so does the charge to the consumer have to reflect those costs. The years given for the increase in cost above 50 cents were the years when Hydro was prevented from applying for a rate increase. In the normal course, possibly it would have been necessary; on the other hand, as Mr. Enns wants to know, The Energy Rate Stabilization Act took the burden of exchange variations off the Hydro costs.

Therefore, it is because of that act it is less of a problem for the exchange-rate fluctuation for Hydro than it is for government, but certainly it is well known that hydro-electric plants which have a very long life expectancy do normally finance over a long term, which means a large part of the cost is in interest rate, rather than it would be, let's say, in cost of coal or cost of maintenance of plants which do not have the refinement of low-labour costs and high capital costs for production of energy.

As the costs rise, as described, Mr. Enns, so does the capital increase, the plants themselves increase on the books of the company and so does the amount of sales which may be made increase. One, I think, would hope that the board is alert to the fact that it wishes to keep costs as low as possible, but probably amongst the least of the expenses that can be controlled is that very interest cost which is a matter of national, if not world control.

MR. H. ENNS: Mr. Chairman, I share the Chairman of Manitoba Hydro's concern and statement about the inability that we all perhaps have to control interest costs. Manitoba Hydro is contemplating, the government is contemplating embarking on massive obligations to borrow the necessary pools of capital to further sales to American customers; that surely is the heart of the question that the opposition wants to examine most fully, it's the cost of those interest charges of a \$3 billion plant Limestone has advanced. We've had indication of the cost of simply advancing it by one year. We have, since we last met, seen the interest rate in Canada rise weekly. We are disturbed that pricing formulas that have been put before this committee have talked about 10 and 11 percent interest charges. Since then, a number of Thursdays have passed where on each successive Thursday the Bank of Canada raises its interest rates.

Indeed, there is serious consideration being given by some fiscal economists that we should not be following the Americans with respect to interest rates, that we should be leading them by several points if we are to resolve some of our problems. I'm not advocating or suggesting that as a fiscal policy. I, quite frankly, don't put myself in the area of being a financial expert, but I am simply asking these questions relative to the very substantial interest charges that the Manitoba ratepayer now has to shoulder and the prospect of those being considerably higher in the coming years.

Thank you, Mr. Chairman.

MR. S. CHERNIACK: Mr. Chairman, as long as the rates have a relationship to the interest rates currently charged so does the impact of interest rates on Hydro

development. So is it protected by the interest rates that are paid through the rate structure by our customers? To be more specific, if in the NSP sale the calculation is made of how much money will be received from our customers, we know that is related to the cost of money, both as to the cost of construction of their plant and the cost of their financing the operations of their plant, so is there a relationship which, as Mr. Enns has stated, there is between the Canadian and the U.S. interest rates in each of the countries. If interest rates would rise in Canada they would presumably rise in the United States because we know that we followed that and, as interest rates rise in the United States, then the rates we charge for the sale of our energy to the United States will reflect that increased cost.

The concern Mr. Enns expressed is one that, I think, we all must share, but the protection that is built into the costs of production of energy for Manitoba, I think, are protected by this scenario I've just described.

MR. CHAIRMAN: Mr. Brown.

MR. A. BROWN: Thank you, Mr. Chairman.

When I was on the Hydro Board I know, at that particular time, the decision was made that we would roll over any principal payments and renew loans as they became due in order to get away from paying the high rate of exchange that was incurred between Canadian money and American money, but this was seen only as a temporary solution. Since then, the exchange rate certainly has worsened the situation and the day of reckoning must come somewhere along the line where Hydro will have to start paying some of the principal. I wonder, has any discussion taken place as to when you anticipate that you will start to pay on the principal?

MR. S. CHERNIACK: Mr. Chairman, Mr. Brown, as a member of the board, must recollect that The Energy Rate Stabilization Act which was passed, I assume, during his term as a member of the board, but certainly during his term as a member of the Legislature, took away from Hydro any responsibility for exchange rate fluctuation and, therefore, what he describes as being a problem became a problem of government, rather than of Hydro, by the passing of that act.

I think he also must know that in every year Hydro is required to, both by its own policy and by the lenders, to set aside a sinking fund for the provision of payment of capital as it comes due. I'm not aware that Hydro ever defaulted on the payments in that sinking fund or on capital and I doubt if it ever will considering especially that the plants that are built are given the nominal life expectancy of 67 years which is generally admitted to be very low.

MR. A. BROWN: Since we have this energy rate stabilization where the government picks up this exchange, can the president or someone tell me how much this cost was last year?

MR. J. ARNASON: The cost was \$21 million last year.

MR. A. BROWN: If we are to proceed with the construction of Limestone, does Hydro anticipate that

the government is going to pick up the cost of the exchange rate for Limestone?

MR. J. ARNASON: The Rate Stabilization Act is still a law of the land and until it's changed, we have to assume that will be the case.

MR. A. BROWN: So that cost then is not part of the cost of Limestone as far as Hydro is concerned and as far as negotiations with NSP are concerned?

HON. W. PARASIUK: It depends on what the actual exchange rate fluctuations are. In 1978, the government of the day made a conscious decision not to borrow offshore. They had made one or two borrowing offshore, but they decided not to borrow offshore and to concentrate almost exclusively on American borrowings. The record has shown that was probably a very bad decision, because the Canadian exchange rate has declined substantially in relation to the American dollar, but has appreciated in most instances in comparison to the other currencies in which one could have borrowed monies, the Swiss franc, the Deutsche mark or the yen.

So it's a matter of trying to make one's best judgment on where the currency fluctuations would take place. In hindsight, it would appear that the 1978 decision has cost Manitobans a great deal of money.

MR. A. BROWN: Since the energy rate stabilization has taken away the cost of exchange on the American dollar, why is it that Hydro now is not paying any principal? When do you anticipate paying off some of the principal?

MR. CHAIRMAN: Mr. Cherniack.

MR. S. CHERNIACK: Hydro is paying principal according to its policy and according to the requirements of the loans that are made. I don't know where the impression was received that Hydro is not paying principal.

By paying into a sinking fund annually, there is a fund provided from which principal payments are made on the bonds as they fall due. It is not an opportunity for Hydro to have the choice as to whether or not to pay it; it does it in accordance with the liability incurred.

MR. A. BROWN: Are these funds actually spent to reduce the principal, or are they going into the sinking fund?

MR. S. CHERNIACK: Mr. Chairman, I, personally, can't answer the question as to where the dollar goes but I believe it always goes in through the sinking fund and then in payment, but the specifics I don't know.

The fact is that, ever since The Energy Rate Stabilization Act, the money is being paid to the Government of Manitoba which pays the debt.

MR. CHAIRMAN: Mr. Manness.

MR. C. MANNES: Mr. Chairman, further to that same point and just for our clarification, I take it that the allocation made to the sinking fund must fall within the

area of depreciation. What share of the 14 cents on the dollar that is allocated to that one area finds its way into the sinking fund?

MR. CHAIRMAN: Mr. Arnason.

MR. J. ARNASON: Mr. Chairman, we'd have to get that information; we can supply that in due course.

MR. CHAIRMAN: It will be supplied in due course. Mr. Manness.

MR. C. MANNES: Mr. Chairman, maybe the Chairman of Hydro or somebody else can tell me basically what area is covered by that large noted depreciation. One doesn't pay for depreciation obviously, so what is totally included in that whole area of heading? I say, in the pie graph on Page 16 is where I'm drawing the figure, 14 percent of the cost used. I don't have to know the figure. I want to know what it covers.

MR. S. CHERNIACK: Again, the annual report dealing with commitment - and I don't know. Are we now reviewing . . .

MR. CHAIRMAN: We are now reviewing apparently the report of Manitoba Hydro with a view to its adoption.

MR. S. CHERNIACK: Well then, Note 3 on Page F8 reads that: "The Manitoba Hydro Act requires the Corporation to provide for an annual sinking fund installment to be paid to the Minister of Finance of the Province of Manitoba of not less than 1 percent of the principal amount of the outstanding debt on the preceding March 31, and 4 percent of the balance in the sinking fund at such date. Such installments under the statutory requirements would provide for the full retirement of a debt obligation only if the obligation was outstanding for forty-one years."

That has been policy, to my recollection, for longer than I can remember.

MR. C. MANNES: I thank the Chairman for that referral to that particular section. That helps to a degree.

I'm wondering though whether the amount kept for sinking fund purposes, whether that is equivalent to the 14 cents or the 14 percent of all the dollars that came in, hard cash, hard revenue that came into the corporation, whether that amounted to a total of 14 cents - (Interjection) - On Page 16, where I draw my 14.

MR. S. CHERNIACK: F6, what will that tell us? Mr. Chairman, I'm informed that Page F6 tells us, under "Source of Funds, Net expense, Provision for depreciation - plant" - that's the statement of changes in financial position - "Provision for depreciation - plant, \$61 million. Amortization of debt discount" - it's all referred to there. If there is clarification of any of the particular items, then of course, we'll try to get it for Mr. Manness.

May I also point out that under "Reserves and Liabilities" on Page F5, it shows a "Sinking fund on deposit with The Minister of Finance" of \$240,417,000.00.

MR. C. MANNESS: Mr. Chairman, I'm not going to belabour the point. I certainly see how depreciation presents a source of funds. I was wanting a more simple description as to what was meant in the pie graph area, where the dollars were specifically going to, and how one would relate that to the setting aside of money for the sinking fund.

Now I have a final question and, as the Chairman of Manitoba Hydro points out, on Page F5 which makes further reference to Schedule C at the back of the report where these sinking fund investments are directed. Who makes the decision as to where Manitoba Hydro's funds are invested? Is that specifically made by the Minister of Finance?

MR. S. CHERNIACK: I'm informed, and I believe I remember, that it is the Minister of Finance who makes the decision.

MR. C. MANNESS: Well I'm trying to do a rough balance between the investments that we have, as Manitoba Hydro, when they fall due, so that they can be reinvested - I'm trying to compare that to Schedule B, Page F9 - showing what is payable in Canadian dollars during the various years. I suppose I would ask Manitoba Hydro what shortfall, at this point, might there be in the first half of the 1990s when there seems that there will be an awfully large number of commitments come due? Does the corporation, at this time, have any idea as to the shortfall between sinking fund revenues that will be able to be applied against the debts, particularly through the first half of the 1990s, or are they balanced?

MR. S. CHERNIACK: Mr. Chairman, I know it is calculated. I don't have the figures in front of me because that's something that is not part of the annual report, but I'm sure we could obtain it for Mr. Manness. Might I say that traditionally, always, the requirement of capital borrowing, in excess of the availability of funds within the organization and the revenue, is borrowed by the Minister of Finance in such ways as he deems advisable. Under the act and The Provincial Administration Act, always, to my recollection, the Minister of Finance controls borrowing of all Crown corporations. And, of course, especially since The Rent Equalization Act was brought in, wherever the borrowing is made it is immediately translated into Canadian dollars as at the time of borrowing and the rate charged to Hydro is the hypothetical - or as closely calculated as possible - Canadian interest rate on that amount of money as at that time.

MR. CHAIRMAN: Are there any other questions on the report of the Manitoba Hydro?

The Leader of the Opposition.

MR. G. FILMON: Mr. Chairman, referring to Page F10, in which we have a Schedule of Long-Term Debt in the various U.S. funding issues, on the top of the page we have Manitoba Hydro-Electric Board bonds, and then on the bottom of the page we have advances from the Province of Manitoba. In both cases the two groups are payable in U.S. dollars. Does the figure in Schedule B represent Canadian equivalent of the borrowings in

U.S. dollars and, if so, what exchange rate is it taken at?

MR. CHAIRMAN: Mr. Arnason.

MR. J. ARNASON: Those numbers are the Canadian equivalent at the time of the receipt of the money, Mr. Chairman.

MR. G. FILMON: Mr. Chairman, so they represent Canadian equivalent at the time that the money was borrowed. Has the Hydro the same type of running set of figures that Manitoba Telephone System used to keep, giving at year end what the Canadian equivalent is for that same principal face value of U.S. currency? We got a recent schedule, say from March 31, 1984.

MR. J. ARNASON: Well that, Mr. Chairman, is the province's responsibility, we do not have those figures here.

MR. G. FILMON: Mr. Chairman, the debts were incurred - although either guaranteed or advanced by the Province of Manitoba - the debts were incurred by Manitoba Hydro and I would think that they would be able to give us those figures fairly readily. In other words, if these are the equivalent Canadian dollars at the time, then I suppose we can simply multiply them by 100 over 75.26, or whatever today's rate is, and find out that they're about one-third higher in equivalent Canadian dollars? Is that a fair assessment?

MR. CHAIRMAN: Mr. Cherniack.

MR. S. CHERNIACK: Mr. Chairman, that would not affect Manitoba Hydro's statement, because the debt is in Canadian dollars as far as Manitoba Hydro is concerned. If it is desired to know what the impact is on the Treasury of Manitoba, then that would be something we could of course calculate, or have the Minister of Finance calculate, but the Manitoba Hydro Board statement would not be affected by the change in the exchange rate that Mr. Filmon describes.

MR. G. FILMON: Mr. Chairman, I recognize that the burden of that exchange difference has been picked up by the Province of Manitoba under The Rate Stabilization Act to which the chairman referred earlier. I'm trying to determine now, in view of the massive slide in value of the Canadian dollar, vis-a-vis the American dollar, just what that burden is.

When I look at a Canadian equivalent of \$915 million Manitoba Hydro direct debt guaranteed by the province, and a further \$450 million advanced by the province in U.S. funds, we're looking at a total of just about \$1.5 billion that I would assume now represents \$2 billion in Canadian dollars because of the declining value of the U.S. dollar. That burden is an additional .5 billion over what's shown at face value here.

MR. CHAIRMAN: Are there any other questions?
The Leader of the Opposition.

MR. G. FILMON: Mr. Chairman, I just want to know if that is the Hydro's assessment of the case and, if

so, perhaps they could confirm or tell me where I'm wrong in my analysis.

MR. S. CHERNIACK: Mr. Chairman, I don't feel that it's the role of Manitoba Hydro to interpret the problem as posed by Mr. Filmon, which is a Provincial Government responsibility because of The Energy Rate Stabilization Act. I really don't think it's for us to comment on matters that are extraneous to our responsibility and, therefore, what Mr. Filmon has postulated as a probability is something which I don't think that Manitoba Hydro should discuss or volunteer any opinions on.

MR. CHAIRMAN: Mr. Minister.

HON. W. PARASIUK: Mr. Chairman, I certainly would raise this with the Minister of Finance and get their calculations to see how they arrived at calculations, taking into account exchange rate fluctuations.

MR. G. FILMON: Mr. Chairman, I know that a .5 billion Mr. Cherniack is indicating isn't the responsibility or the concern of Manitoba Hydro, but it is of the taxpayers of Manitoba, because those debts were incurred by, or on behalf of, Manitoba Hydro. I'm attempting to get an analysis of just what we're into, particularly when we're leading into discussions of further involvements with situations that involve exchange rates with the United States, further involvements of borrowings in American or other foreign currencies, and I'm trying to get an evaluation of what that is likely to entail and what risks that may hold for the ratepayers or, indeed, the taxpayers of Manitoba.

I want to just simply make the further point, Mr. Chairman, that Mr. Cherniack keeps pointing to the fact that this was all changed by The Rate Stabilization Act, but we don't have stable Manitoba Hydro rates any longer, that, in fact, something has changed during the past two years and, that is that the rate stabilization has been abandoned and, in fact, ratepayers are now paying higher rates and, at the same time, taxpayers are now picking up a portion of the exchange debt that has been incurred by Hydro and I just want to get all that information out.

MR. CHAIRMAN: This is not the proper Minister to ask this, it's the Minister of Finance.

Mr. Cherniack.

MR. S. CHERNIACK: Mr. Chairman, just in response to Mr. Filmon and only in regard to the Manitoba Hydro responsibility, The Energy Rate Stabilization Act deals only with the exchange rate as between foreign and Canadian currency. It has nothing whatsoever to do with the rates charged to ratepayers. There was a freeze established, not by any act of the Legislature, which freeze was intended to last five years. The only evidence of it is a statement in the Budget Address, I believe, of that year. The rates referred to are two different rates: (1) rates charged to ratepayers of Manitoba, which has no statutory support, and (2) The Energy Rate Stabilization Act which did not have a termination time which were related to exchange rates. I hope that clarifies the answer I gave before.

MR. G. FILMON: Well, Mr. Chairman, I think the evidence is available that the two were done in tandem with the intention that, by virtue of lifting off the volatility of the potential of such a major drain on the Manitoba Hydro resources that was caused by the foreign exchange rates with respect to foreign borrowings, by taking off that responsibility from Manitoba Hydro, they were then in a position to stabilize rates for a period of time that was projected at five years. They say one-half of the equation has been altered but the other half has not. I want to put that on the table.

MR. CHAIRMAN: The Honourable Minister.

HON. W. PARASIUK: The Leader of the Opposition didn't attend the past meetings of the Public Utilities Committee two years ago and a year ago where this matter was discussed, and he is now conveniently forgetting two years of drought conditions that we had in Manitoba that changed projections of revenue substantially and that had a bearing on whether, in fact, one could have a five-year freeze and not continue to run massive deficits to Manitoba Hydro. All told, Manitoba's rates have compared very favourably to other jurisdictions. I can recall at the last meeting of the Public Utilities Committee, I think it was the Member for Lakeside who said that we have increased substantially over, say, Saskatchewan, whereas the actual figures indicate that as of 1984, Saskatchewan Power's rates will increase by 9.7 percent and Manitoba's will have increased by 7.9 percent.

In 1983, Saskatchewan Power was increased by 12.6 percent and Manitoba's increased by 9.5 percent, so our Manitoba Hydro's performance in terms of rate increases in order to meet expenses has been very good compared to other jurisdictions.

MR. G. FILMON: If Manitoba Hydro had to bear the additional cost of foreign exchange on their foreign borrowings, would that affect their rates?

HON. W. PARASIUK: Yes, it would. As I indicated before, there have been decisions made with respect to either not going into offshore borrowing or concentrating solely on the United States, and the decision to concentrate borrowings totally in the United States in 1978 has proven to be very very expensive. We can certainly calculate what that cost has been and we can certainly get back to the Leader of the Opposition to determine what it is.

MR. G. FILMON: Mr. Chairman, I'm talking about the total costs of the foreign borrowings that were done not just since 1978, but all of those that show up on the balance sheet of Manitoba Hydro. If they were responsible for the foreign exchange on those borrowings that has been lifted from it, would that not adversely affect the rates?

HON. W. PARASIUK: Yes, I think, two years ago in the Public Utilities Committee, I indicated that if The Exchange Rate Stabilization Act was changed - and that would take an act of the Legislature - the rates would, in fact, go up more.

MR. G. FILMON: Thank you, Mr. Chairman.

MR. CHAIRMAN: If there are no other questions on the Hydro Report?

Mr. Brown.

MR. A. BROWN: Mr. Chairman, I believe that we have a considerable reason for concern; at least the way that I understand it now is that the cost of Limestone and the agreement on some of these sales, one very important factor is going to be left out of this and that is the cost of exchange which will have to borne by the Manitoba ratepayer. That, of course, is going to precipitate a tremendous cost to the taxpayer in Manitoba.

I wonder, and I can't find this in the annual report anywhere unless I just haven't found the correct page, but what was the average price received from Hydro sales to the United States in this last year?

MR. CHAIRMAN: Mr. Arnason.

MR. J. ARNASON: The average price, Mr. Chairman, was 15.5 mills per kWh.

MR. A. BROWN: How does that compare with the rate that is paid by Manitoba customers during that same period of time?

MR. J. ARNASON: The average rate to the residential customer is approximately 3.2 cents. Of course, you've got to realize that you're comparing apples and oranges here because when you're talking about selling of power to the U.S., you're talking about taking down high voltage to the border. From there, the purchaser has to have in place his transmission system, his distribution system, and under interruptible power sales we're really replacing his fuel. He still has to have his plant in place so that the two figures are not comparable.

MR. A. BROWN: Translating that 3.2 cents to mills would make that about 32 mills, is that correct?

MR. J. ARNASON: Yes, that is correct, Mr. Chairman.

MR. A. BROWN: What price have we been receiving from Ontario and Saskatchewan - they'll probably be different figures because we have different agreements - during that same period of time?

MR. J. ARNASON: This is for the 12-month period for the year 1983-84 to Saskatchewan, which consisted of two components, some firm capacity sales and some interruptible sales. It's a total of 17.4 mills. Now if you are going to compare the interruptible sale to Saskatchewan, that component would be 15.6 mills per kWh.

To Ontario, there are three components in the total sales package. There was a firm summer peaking sale, an interruptible sale, and another sale which we call the Lake St. Joseph return, but if I deal with the interruptible sale to Ontario only, that would be 16.2 mills. The total of the sales to Ontario for all three components was 14.7 mills.

MR. A. BROWN: So the price of power that we are selling really has not increased all that much over the

last four or five years, because I remember that we were selling power at around 14 mills to the United States a few years ago. Meanwhile, we in Manitoba have had an increase of 17 percent. What I was trying to determine was whether that 17 percent had also been translated over into rates or price that we were receiving from extra-provincial sales, but this really has not. I suppose that the market still is a low-priced market, especially going into the United States where we have been selling so much power.

MR. J. ARNASON: Yes, we are selling into a relatively low-price market area compared to other parts of the U.S.A. I gave you a figure of 15.5 mills for the average price; a year ago, that was 13.8 mills.

The current year, we find that the rates have gone up substantially on interruptible sales, in fact, the last three months of the current fiscal year the rates were four mills higher than our estimates. In addition, the quantity of sales has been greater than estimated.

MR. CHAIRMAN: Mr. Manness.

MR. C. MANNES: Mr. Chairman, just a brief couple of questions to Mr. Arnason. I have before me an internal memorandum signed by Mr. Arnason, I believe it was February 20th, and the subject was separation. I would just like to read this into the record.

"The board has confirmed the approval of the guidelines governing full-time employees who are terminated or retired by decision of the corporation for the following reasons . . ." - and there are four - "reduction in workload, combination of responsibilities, reorganization and, fourthly, manpower needs."

I would ask Mr. Arnason, from the date of this letter to this point in time, how many full-time employees have been terminated or retired by basis of the decision made by the board.

MR. J. ARNASON: Since that policy was implemented there was a total of 18 people who have received separation notices.

MR. C. MANNES: How many of those are engineers?

MR. J. ARNASON: Eleven out of 18 have engineering degrees.

MR. C. MANNES: That's fine.

MR. CHAIRMAN: Unless there are any other questions, can we have approval of the Report of the Manitoba Hydro? The Report of Manitoba Hydro—pass.

We haven't passed the Annual Report of the Manitoba Energy Authority.

The Leader of the Opposition.

THE MANITOBA ENERGY AUTHORITY ANNUAL REPORT

MR. G. FILMON: Mr. Chairman, I wonder if I could ask a few questions with respect to the major power sale agreements that we were earlier discussing in committee. I believe that now falls within the bailiwick

of the Manitoba Energy Authority and we can proceed on that basis.

Mr. Chairman, I wonder if either the Chairman of the MEA, or someone else can indicate, where does the proposed MANDAN intertie and diversity exchange and energy sales stand at the present time.

MR. CHAIRMAN: Mr. Eliesen.

MR. M. ELIESEN: Mr. Chairman, I believe at the committee hearing earlier at the end of June I was asked that question, and I indicated then that we are presently involved in intensive negotiations with the participants. I further indicated that the anticipated 1989 in-service date would be deferred as a result of the request by the U.S. participants, but we are presently involved in intensive negotiations. I think that's the best I can add to the current situation.

MR. G. FILMON: Are any difficulties being experienced with respect to the prospect of construction of the transmission facilities that would be required for this sale?

MR. M. ELIESEN: Mr. Chairman, I believe that has been an ongoing problem which is increasingly being resolved. There is now approval by the State of Nebraska and the State of North Dakota; the Public Service Commission in that state has approved, in fact, five possible lines which would connect with Manitoba.

There is an impasse in the State of South Dakota with the regulatory commission there whose initial judgment was overruled by a lower court. Now it's at the Supreme Court level and a decision is expected shortly.

MR. G. FILMON: So that with respect to the location and the approval for transmission facilities it is only the State of South Dakota that remains to be in agreement, or to give its agreement?

MR. M. ELIESEN: That is correct, Sir.

MR. G. FILMON: I wonder if I could ask the Chairman of MEA, what is the proposed basis for costing the energy sale to WAPA?

MR. M. ELIESEN: Mr. Chairman, I believe the Minister made public in the Legislature the Letter of Intent that has been signed between the Manitoba Energy Authority and the Western Area Power Administration. The details of the pricing regime are all listed. Now, if you'd like, we can make copies available, or I can start reading the various points of agreement related to the pricing situation, whatever Mr. Filmon prefers.

MR. G. FILMON: Just perhaps, to be more specific, Mr. Chairman, what is the total capacity to be dedicated to that sale?

MR. M. ELIESEN: In the first principle identified and agreed to between the two parties, it states: "The MEA, through Manitoba Hydro, will sell to Western Power and Energy equivalent to the net addition from a new major Hydro-Electric Generating Station on the

Nelson River." It goes on to state, "For purposes of defining the power and energy the actual station shall be Limestone or, if that station is required for other purposes before the sale begins, the Conawapa Generating Station." At present we are looking at the Conawapa Generating Station which would be about 1,300 megawatts capacity.

MR. G. FILMON: So we're looking at the equivalent of a Limestone at Conawapa at 1,250 - 1,300 megawatt dedication to that sale. Would the pricing mechanism for the WAPA sale be based on the amortization of the full capital costs of the construction of this facility, plus an appropriation of a portion of the values of the transmission equipment and facilities necessary, plus an apportionment of capital charges of the upstream in-place facilities, such as, Lake Winnipeg Regulation and Churchill River Diversion, plus an apportionment of the overhead of the Hydro system currently in place in Manitoba?

MR. M. ELIESEN: Mr. Chairman, since discussions and negotiations are proceeding with the Western Area Power Administration it would be inappropriate for me to go into any detail with regard to those negotiations. What I believe I can do though is satisfy Mr. Filmon's question by referring to Items 7 and 8 of the Letter of Intent.

Item No. 7 states: "Subject to Item 8, the price shall be based on a percentage of the buyer's alternative cost of services for generation. To determine the buyer's alternate cost of services for generation, mutually acceptable new coal fire thermal generation units and the buyer's market will be selected for purposes of price calculation. This generation would have been owned and operated by western customers in Missouri River Basin marketing area.

"Capital costs will be adjusted to reflect an in-service date for this generation coinciding with the beginning of the sale. Operation and maintenance costs will be based on the most recent actual reporting, O and M costs associated with the thermal base load sites used in the sale pricing scheme."

Then Item No. 8 states, "The sale price shall not be lower than a guaranteed minimum price to be negotiated by the parties. In the event the price calculated in Item 7 is lower than the guaranteed minimum price the sale price will be the guaranteed minimum price."

In the consideration of Item No. 8, the various factors that Mr. Filmon has referred to would be obviously taken into consideration in determining our guaranteed minimum price.

MR. G. FILMON: Mr. Chairman, that being the case, if the intention is to factor in the actual capital costs of the next plant on the Nelson River - transmission facilities, upstream capital investments, and so on - as the basic minimum for calculating the price that we get for the energy sold to WAPA, why wasn't that sort of clause and method of calculation used for the sale to NSP?

MR. M. ELIESEN: Mr. Chairman, for the very same reason that it's included in the Western Letter of Intent.

We are after these export sales with the intention of maximizing profits. If the studies that are undertaken show that we can maximize profits utilizing the alternative cost of generation in the buyer's market, then clearly that is the area that we would proceed.

In the case though of the western possibility, we are looking there at the complete dedication of the net output of a plant for a longer time period, for 35 years. In the case of NSP, we are looking for a 500 megawatt sale coming out of the Manitoba Hydro system for 12 years.

Furthermore, that arrangement coincides with determination of an existing arrangement going to 1992, therefore, the new sale starts up in 1993 without any new transmission costs required by either side.

MR. G. FILMON: So what Mr. Eliesen is saying is that, in the case of the WAPA sale, he acknowledges that it would be necessary to cover all of the capital cost carrying charges and all those things because we are dedicating an entire plant there, or proposing to; whereas in the case of the NSP sale, the plant is going to be built on the justification of Manitoba's domestic load requirements, and more or less an excess portion of it that isn't to be required immediately by Manitoba will be sold, and so therefore a different pricing mechanism can be justified on that sale than on the WAPA sale?

MR. M. ELIESEN: Mr. Chairman, a similar but different pricing mechanism is being suggested for the Western Area Power possibility. The same principle is there in terms of a percentage of the buyer's alternate cost of services for generation. There are studies - Manitoba Hydro studies confirm, for example, in the Northern States Power sale, that the people in Manitoba will benefit to the tune of approximately \$1.7 billion over the 12 years of the sale and that is utilizing that principle of using the alternative service of generation.

In the Western Area Power possibility, because it's 35 years, we want to ensure ourselves that we have a minimum guarantee. I say this quite frankly, it was one of the areas that was omitted in the pricing negotiations between Manitoba and Saskatchewan and Alberta with regard to the Western Power Grid. When you dedicate a plant for export services you, in effect, advance facilities required for domestic consideration; that is a cost that has been referred to as added systems cost. In fact the generation becomes expensive, in accordance with Manitoba Hydro's sequence generation, and we want to ensure ourselves that in the consideration of any possibility of a Western Area Power sale that those system costs are included in the pricing negotiations.

MR. DEPUTY CHAIRMAN, H. Harapiak: The Leader of the Opposition.

MR. G. FILMON: Mr. Chairman, there are no capital costs of the construction of Limestone or any upstream in-place facilities included in the calculation of the cost of sale to Northern States Power. So that, in fact, none of those things that were included in the sale to Saskatchewan or Alberta, apparently are going to be considered in the sale to WAPA; none of those things

are included in the NSP calculation. There is no attribution of capital cost of any portion of Limestone which would be, in effect, dedicated to this sale. Even though it comes out of the system in general, it's obvious that it has to come from a new source of generation. There is no capital cost of transmission facilities; there is no capital cost of upstream, in-place facilities that serve to increase the capacity of Limestone, such as Lake Winnipeg Regulation, such as Churchill River Diversion.

I know that, for instance, in the cost benefit analysis that was used to justify Lake Winnipeg Regulation and Churchill River Diversion, the assumed benefits in Limestone, Conawapa and so on were all calculated into that cost benefit analysis, yet they're not being attributed to the use of those generating stations for the sale.

What I am saying is that there obviously is a different method of calculation being used for WAPA; one that does, in fact, reflect true cost to Manitoba Hydro, as opposed to somebody else's costs that may or may not be appropriate under the circumstances.

MR. M. ELIESEN: Mr. Chairman, no, that is completely incorrect. It may be helpful if I reviewed, again, since it has been two weeks or more since the last Public Utilities Committee of the Legislature met, the methodology that has been utilized by Manitoba Hydro in forecasting the revenues, the costs and the profits related to the Northern States Power sale.

A contract has been signed with Northern States Power to supply that utility with 500 megawatts of firm power for 12 years beginning May 1, 1993. Manitoba Hydro estimates the sale will generate about \$3.2 billion in revenue and a profit of approximately 1.7 billion for the people of Manitoba.

Now going directly to the point raised by Mr. Filmon, the costs of making the sale are simply determined by simulating the future operation of the Hydro system without the sale, and that is the base case; and with the sale, which is a sale case. The difference in cost between the two cases is the cost of making the sale.

There are three categories of costs that were identified at the committee hearings. The first one was the cost of advancing facilities - and these are capital costs I will emphasize. They relate to Limestone, one year; they relate to Wuskwetim, four years; they relate to Conawapa, four years, because one of the principal costs of making the sale arises from the earlier expenditures of money associated with the advance in-service dates of Hydro capital facilities.

The second costs, but on a smaller basis, are the costs that are associated with the operation and maintenance of the advanced facilities.

The third category of the costs in making the sale to NSP arises as a result of the effect of the sale on Hydro surplus sales account, and that is the interruptible sales. You heard earlier Mr. Arnason refer to the rising values that we are getting from interruptible sales. Those have to be taken into account because, on a comparison between the base case and the sales case, we have less surplus power available in the sales case with average prices received from the surplus cases to be affected slightly. These reduced revenues are charged as a cost of making the NSP sale.

So, in summary, you have three categories of costs: the costs of advancing the capital facilities; the operating and maintenance costs; the reduction in revenue from surplus sales.

Now on the revenue side, you're already familiar with the pricing regime but, based on that pricing regime, it has been estimated that revenues will be approximately \$3.2 billion. When you subtract the costs from the revenues anticipated you get a benefit cost ratio of 2.2:1, or profits 55 percent as a percentage of the revenue.

Now I want to emphasize, Mr. Chairman, to the committee and members of the committee, that the methodology and the analysis utilized to evaluate these revenues and the costs and the profits by Manitoba Hydro is standard utility economics. It is consistent with the analysis undertaken by other Canadian utilities, and particularly Hydro Quebec, the largest hydro exporter in Canada. It is also consistent with the standard National Energy Board analysis.

I should emphasize, as well, not only on the economic side but on the financial side, you had presentations by Manitoba Hydro, and confirmed by the President and the senior officials of Manitoba Hydro, confirming that 2.2:1 benefit cost ratio. Now the analysis is not a back-of-the-envelope calculation, it is based on a sophisticated Manitoba Hydro utility economic model, and the results and the details will all be included in the submission before the National Energy Board.

We further pointed out, since this has been one area that's been stressed in some of the questions, some of the factors. We have undertaken sensitivity analysis on the exchange rates, on the interest and escalation, and the load growth as well as coal prices. The results that were shown clearly indicated that you could have a benefit cost ratio anywhere from around 1.5 to over 3:1.

Now I emphasized at the last committee hearings and I emphasize again that the assumptions we have used have been cautious and conservative, which has led to that 2.1 benefit cost ratio.

MR. CHAIRMAN, C. Santos: The Leader of the Opposition.

MR. G. FILMON: Does the cost of the NSP sale include the interest on the portion of the capital charges of Limestone, that portion that will be dedicated to the NSP sale? In other words, about 40 percent of the Limestone plant will be dedicated in terms of capacity to the NSP sale. Is there an interest cost on the 40 percent of \$3 billion invested included in that calculation that arrives at the costs of making the sale to NSP?

MR. M. ELIESEN: Mr. Chairman, I think that is one of the main issues that members of the committee should try to understand. The references have been made to a dedicated portion of Limestone; there is no dedicated portion. This is a 500 sale out of the Manitoba Hydro system. The impact of that sale on the Manitoba Hydro system requires an advancement of Limestone from the current load forecast, which had been 1992, to 1991. The costs associated with it and the impact on the Manitoba Hydro system have been clearly shown.

If it's useful, we can bring back Mr. Brennan of Manitoba Hydro to show you the financial impact

between with the sale and without the sale on Manitoba Hydro.

MR. G. FILMON: Mr. Chairman, we have the record of Mr. Brennan's presentation. We have the charts and tables before us, and I just wanted to clarify just one last time for the record that the assumption is that the ratepayers of Manitoba require the construction of Limestone for their purposes and, therefore, you don't include any of the capital costs of building that Limestone plant in the charges that you attribute to NSP, rather it's just the costs of advancement which includes some minor capital charges in advancing the construction of some of these plants that are in there. Therefore, in other words, the rate shock or the absorption of that major investment of \$3 billion being taken by the ratepayers, and NSP getting the gravy of being able to deal with a portion of the plant, in effect, on their side for energy purposes without having to absorb any portion of the capital charges.

Mr. Chairman, the Chairman of the Manitoba Energy Authority can justify it all he wants and say that's the way that is acceptable to utilities throughout the country, but that is not a businesslike analysis of how that energy sale should be analyzed.

I want to go to one further question, and that was left on the table and I believe Mr. Derry agreed to bring us back the information; that was the evaluation of what would be the common bus rate of energy costs from Limestone at 14 percent interest rate.

MR. M. ELIESEN: We can ask Mr. Derry to make that information available, but I would like to emphasize again that there is a misinterpretation in Mr. Filmon's remarks in the reference to the fact that there are no capital costs that have been included in the costing of this particular sale. The full capital costs related to those advancements have taken place.

MR. G. FILMON: After construction?

MR. M. ELIESEN: That is correct, because very clearly, when you have a 12-year sale you will impact a system which becomes more expensive as you proceed building generating capacity. You would underestimate the costs of the sale by not attributing the costs related to a Wuskwetim or to Conawapa. That was a major area, quite frankly, that was omitted from the Western Power pricing negotiations and it is a major cost to Manitoba ratepayers. We have to assume, and we want to avoid Manitoba ratepayers incurring any cost obligations as a result of an export sale, that is, a sale made outside of Manitoba. The methodology that we have utilized takes into account all those costs and, in fact, the more expensive costs.

We have in use, it was suggested at a previous committee hearing, average costs, because average costs are not incremental costs of your most expensive utilities or facilities coming on. Again, with respect, I appreciate a difference of opinion is being suggested, but we will stand with Manitoba Hydro's analysis which can be confirmed with any utility evaluation and costing principles in this particular area.

I can ask Mr. Derry to provide the information requested if that's appropriate. I've been advised, Mr.

Chairman, that it's 7.1 cents at the 14 percent interest rate.

MR. G. FILMON: So, 7.1 cents per kWh is what it will cost us to produce energy from Limestone. That's not an average rate, that is the incremental rate of that new facility, that is the actual rate of that new facility coming on stream.

That, as well, Mr. Chairman, if I can for my own purposes have clarification, does not include any portion of the upstream invested costs in, say, Lake Winnipeg Regulation or Churchill River Diversion or in-place transmission facilities, is that correct?

MR. M. ELIESEN: That's correct, Mr. Chairman.

MR. G. FILMON: Okay, so now I think we're getting down, regardless of all the rhetoric and explanations of what Mr. Eliesen is saying, the average rate that we are selling to NSP over the term of the sale is 7.5 cents a kWh. That figure, I believe, was given at one of the earlier meetings of the committee, is that correct?

MR. M. ELIESEN: Yes, I believe the figures mentioned at the earlier meeting was 6.7 going to 9.8 with an average about 8.0.

MR. G. FILMON: We're selling it at 8.0 on average over the life of the 12-year agreement to NSP. If the interest rates on our investment are 14 percent, our average cost of producing that energy from Limestone is 7.1 cents a kWh, not including any attribution of value of the construction of Churchill River Diversion, Lake Winnipeg Regulations, transmission facilities, overhead in the system or anything else, that's just what it would cost us for that plant to produce energy as it adds on to the system.

So, now we see what I believe a more valid comparison is, and that is 7.1 cents versus 8 cents on the life of the sale, and that's where I find this whole analysis that Mr. Eliesen has indicated to be totally faulty; it just doesn't make sense.

MR. M. ELIESEN: Mr. Chairman, with respect, it does make sense and makes good economic sense. The area which Mr. Filmon is now referring to is interest rates - it works on both sides of the balance sheet - if there are higher interest rates impacting on costs, then they're also impacting on the revenue side. I believe we've shown you the sensitivity analysis with regard to interest rates. In fact, we presented an example showing an interest rate going to 14 percent which is three points higher than the assumptions we've used of 11 percent.

If you'll look at the chart, which we can bring back, you'll see there, even on that basis, profit as a percentage of revenues decrease from the 55 percent anticipated to 52 percent. So we admit, yes, there is a slight impact on our overall profit position as a result of making the sale related to higher interest rates, but only marginally.

MR. G. FILMON: Mr. Chairman, the earlier information that was presented showed that the rate of return on the NSP sale, based on the cost of SHERCO 3 energy

production, had an inflation escalation rate that was only about half of what the interest rates were, so that even although our interest rates might be going from 11 percent to 14 percent or even higher, that inflation wasn't going to be going up nearly as much and so the expected increase in value of our energy sale to NSP wouldn't be nearly at the same rate, in fact, it would be probably at about half the rate.

I believe that there is indeed an inherent major risk on behalf of the taxpayer of Manitoba in the potential for rising interest rates. The potential for rising interest rates that is triggered by us going into this construction of this plant earlier, by one or two or more years depending on what the load growth projections are, we are now bearing the risk on the Hydro system and on the taxpayer of Manitoba for making a sale to the Americans, the returns for which are based on their potential alternative costs and not based on what our actual costs are.

MR. M. ELIESEN: Mr. Chairman, if we had to make the sale based on our costs we probably would not want to make the sale because we wouldn't make any profits. That was the basis upon which a Western Power Grid negotiations took place. There were no profits other than the income and employment effect associated with the construction of Limestone Generating Plant.

In all our discussions with U.S. utilities that we've been proceeding with we've been going on the basis of trying to make a significant profit as a result of having a lower-cost system. It's clear - I'll give you a very open example - Northern States Power charges or rates to its industrial and residential customers are twice as high as that in Manitoba. We're still selling into a lower market relative to the Eastern Seaboard, for example, but on the basis of the studies that have been undertaken, it shows quite clearly that we can make significant profits by a costing situation based on their alternative generation. We've given you the details, not only on the capital side, but also on the operation and maintenance and the coal situation, in particular. We've gone into details showing you the kind of escalation that has taken place in the future, the kind of conservative assumptions we've made on coal related to that 12-year period.

MR. G. FILMON: Mr. Chairman, I think it's just evident that, based on our actual costs, assuming 14 percent rates and not taking into account the attribution of several other major capital works that should be added in to get our actual cost. They're over 7 cents a kWh, and we're selling it for 8 cents a kWh, so that there isn't very much in the way of a profit margin there and there's a whole lot of risk that, in fact, the interest rates will be higher in Manitoba than 14 percent, and risk that the costs of our construction may be higher than projected and on and on and on.

As I say, this isn't a total attribution of capital works because there are capital works that were constructed previously upstream, in order to maximize the potential from Limestone or Conawapa or whatever, so those things all should be taken into consideration. But even not taking them into consideration, there is not anything there in the way of a profit margin and there's a whole lot of risk involved, so I don't see how Mr. Eliesen can

say that taking into account our costs wouldn't give us a fair return.

MR. M. ELIESEN: Mr. Chairman, I mentioned earlier, you have to look at both sides of the balance sheet; if you want to apply a 14 percent interest rate on a Limestone plant, then you should apply 14 percent also on the equivalent side related to Northern States Power. We are not insulated in Manitoba from interest rates, and if interest rates are going to be higher in Manitoba, in Canada, they will equally be so in the United States. Therefore the 8.0 mills that is now referred to as a comparison would also have to be adjusted by a 14 percent interest rate.

The point that we are trying to emphasize is that the comparison in costing the sale does not relate specifically to Limestone, because if you did that, you would underestimate the cost related to making the sale. I'm trying to emphasize, very clearly, that as you bring on additional generation over 12 years, that generation becomes more expensive and if you don't take into account that more expensive generation, then you are undercosting yourself to a degree which should be costed related to the overall sale.

As I emphasize again, this information is standard utility economics, and to the degree that there are other so-called experts available to present an alternative methodology, I'm sure they would want to make an appearance before the National Energy Board when the application is brought forward.

MR. CHAIRMAN: Mr. Minister.

HON. W. PARASIUK: Yes, I'd like to ask Mr. Eliesen if he could indicate whether items like the cost of Lake Winnipeg Regulation or the Churchill River Diversion or the advancement of Conawapa or Wuskwetim or any other dams that might be required because of dedicating Limestone for 35 years had been taken into account, and any type of calculations that had taken place in the late 70's or early 80's with respect to the Western Intertie sale?

MR. M. ELIESEN: Mr. Chairman, no. Those areas were not taken into account, although they've been priced by Manitoba Hydro. They were not taken into account in the pricing negotiations between Manitoba, Saskatchewan and Alberta.

HON. W. PARASIUK: So there we had a situation where the sale itself was going to be marginal and probably provide no profit, but at the same time, the costs of advancement of generation that this would entail were not calculated into the costing or the pricing.

MR. M. ELIESEN: Mr. Chairman, that is correct. The idea of advancing generation for outside utilization obviously meant that you would have to bring forward generation - and more expensive generation - to serve Manitoba's domestic needs. Those costs, which had been priced by Manitoba Hydro, were not included in the pricing negotiations between Manitoba and the other two provinces.

HON. W. PARASIUK: Could you indicate, refresh my memory, what was the cost of that and whether in fact

that was in discounted dollars and whether in fact it was calculated over the life of the agreement, namely the 35-year projected life of the agreement?

MR. M. ELIESEN: Mr. Chairman, the figures produced at that time by Manitoba Hydro showed that the system's cost would be approximately \$130 million in 1980 dollars, and when taking into account for a 1989 in-service date, would be approximately \$333 million.

HON. W. PARASIUK: That's \$333 million as of 1989. At the same time, those are done on the basis of discounted dollars. What would it end up being over the lifetime of the entire agreement?

MR. M. ELIESEN: Mr. Chairman, obviously that would be a lot higher but we don't have that figure available. We can calculate it if it's desirable.

HON. W. PARASIUK: Would you please calculate it? Because I see it as being probably well over \$1 billion.

MR. CHAIRMAN: The Leader of the Opposition.

MR. G. FILMON: Mr. Chairman, was the \$3 billion cost of construction of Hydro taken into account in arriving at the pricing of the energy for the Western Electric Power proposed deal?

MR. M. ELIESEN: I'm sorry, Mr. Chairman. Could the question be repeated? I wasn't too clear on it.

MR. G. FILMON: Did the proposed Western Electric Intertie pricing agreement take into consideration the full capital charge of \$3 billion for the proposed Limestone Generating Station?

MR. M. ELIESEN: Mr. Chairman, yes, that figure did, although there was an erroneous figure that was included in the draft agreement which underestimated the actual amount that had been spent at that time. We can get those details for the member if he's interested.

MR. G. FILMON: Did the agreement provide for the recipients of the energy, namely, Saskatchewan and Alberta, paying the interest charges on that full \$3 billion capital cost?

MR. M. ELIESEN: Mr. Chairman, I'm willing to make public - and I'm not sure whether it has been made public, I have to check with the Minister - the full draft agreement related to the proposed Western Intertie which will show quite clearly the risks that Manitoba had to assume with regard to the construction of the Limestone Generating Station. The specific amount was written into the draft agreement, and Manitoba had to assume all of the risk related to producing, constructing that plant at that particular figure, with the interest percentage that would take place during the construction period, but a fixed amount was written into that draft agreement.

MR. G. FILMON: Mr. Chairman, is the MEA Chairman saying that there wasn't a risk on interest rates; that

in fact the interest rates would be picked up by the purchasers of the energy, regardless of what those interest rates were?

MR. M. ELIESEN: That is correct.

MR. G. FILMON: Now is Mr. Eliesen saying that Manitoba Hydro had some doubt about the estimate that it gave for the construction of Limestone that was used in that agreement?

MR. M. ELIESEN: Manitoba Hydro did have significant doubts related to the actual figure that was included in the draft agreement and was calling for particular changes, so as not to assume the entire risk of a project in which the output would be going towards Saskatchewan and Alberta. In fact, the particular areas which have been identified, have already been made public in the Legislature, and if Mr. Filmon will bear with me, I'll get the actual material and go into detail.

On Limestone costs, Manitoba Hydro was calling for a changing of the wording of Clause 1.1.5 to tighten sharing of risks between all parties. Clause 1.1.5 of the draft agreement would have to be revised. Manitoba Hydro's preferred wording would not limit the Limestone costs, but would set up a design and review committee with representation from each province to oversee the Limestone generation project. If it is unacceptable to the buyers to have no upper limit on Limestone costs, then the Limestone costs should at least be revised to bring it in line with the most up-to-date estimates and to distinguish between money already spent and money yet to be spent.

Now those were the concerns being expressed by Manitoba Hydro as of February 8, 1982.

MR. G. FILMON: What were the costs of Limestone that were estimated in the proposed agreement?

MR. M. ELIESEN: We'd have to get that information for Mr. Filmon. We can make that available.

MR. CHAIRMAN: It will be made available.
The Leader of the Opposition.

MR. G. FILMON: Is Mr. Eliesen telling us that there has been a substantial recalculation of the costs that has increased it over and above what was in that agreement?

MR. M. ELIESEN: No, Mr. Chairman, I had already indicated that what was attempting to be renegotiated was a greater sharing of the risk related to that estimate.

In addition, I indicated that the actual figure that was written into the draft agreement was an erroneous one related to that time factor. Obviously, I don't have that information with me, but we can certainly make that available.

MR. G. FILMON: He says, "erroneous related to that time factor." I'm not sure what he means by that. Is he saying that the agreement valued Limestone at \$2 billion and it was actually supposed to be valued at \$3 billion, or what is the area of concern that he's referring to?

MR. M. ELIESEN: Mr. Chairman, the area of concern was simply the fact that a figure of 928 was used related to March, 1981, whereas in fact that 928 was the expenditures running up to October. There had been a five- or six-month period of expenditures that were not included, and that was the erroneous information that was included. Now we can make available the real figure as it related to March of 1981.

MR. G. FILMON: What is 928? Is it 928 thousand? Is it 928 million? I'm not sure what he's referring to.

MR. M. ELIESEN: It's 928 million in 1980 dollars.

MR. G. FILMON: And that is the discounted value of the construction of Limestone?

MR. M. ELIESEN: That's correct.

MR. G. FILMON: Down to 1981 dollars?

MR. M. ELIESEN: 1980.

MR. G. FILMON: 1980 dollars. Now is Mr. Eliesen saying that figure is drastically in error?

MR. M. ELIESEN: Mr. Chairman, I have been advised that the main difference between that October and March date was the interest on the amount had not been included in the figure.

MR. G. FILMON: That's the interest on the cofferdams that were in place or the construction up-to-date, six months' interest. What did that amount to?

MR. M. ELIESEN: I'll have to take that question as notice and provide the member with the information.

MR. G. FILMON: Can the Chairman of MEA indicate what the costs in place of the current investment in Limestone is in those cofferdams and the work that was done up-to-date?

MR. M. ELIESEN: I am advised by Manitoba Hydro that it is approximately \$166 million, half of which is interest.

MR. G. FILMON: Half of which is interest. So at that point in time - that's today's dollars I assume, is it, 166?

MR. M. ELIESEN: I am advised, Mr. Chairman, that the costs to 1984, March 31st, 80.709 million is the base, 85.610 million is the interest for a total of 166.319 million.

MR. G. FILMON: So where the error was, he is saying, is that there was a failure to take into account six months' interest on \$80 million. So we're talking that it might have been in error by about \$5 million or something like that out of a \$928 million estimate, and that was the major area of risk that Manitoba Hydro is concerned about?

MR. M. ELIESEN: No, Mr. Chairman, I didn't say that. I said that was one area. If an erroneous figure had

been included obviously you would want to include the correct figure.

I indicated earlier the statement made by the information supplied by Manitoba Hydro officials with regard to sharing of the risk on a fixed amount that had been indicated for the construction of the Limestone dam.

MR. G. FILMON: Who provided that fixed amount? Was it Manitoba Hydro staff who provided that estimate?

MR. M. ELIESEN: That is correct.

MR. G. FILMON: Is the chairman saying that the Manitoba Hydro staff now believe that their estimate was in error?

MR. CHAIRMAN: Mr. Minister.

HON. W. PARASIUKE: No, there is just less risk now. I explained that at the last committee meeting. At that time, a Western Intertie was predicated on an overheated Western Canadian economy where Alberta thought they would be building the Athabasca Tar Sands. They thought they would be building the Cold Lake heavy oil upgrading plant; they talked in the order of \$30 to \$50 billion-worth of investment, and an overheating of the economy; they were concerned about the impact that this would have on their own construction costs.

At that time 928, or whatever the cost would be, is much more risky than trying to do one large project in Western Canada now when we are, in a sense, the only development game in Western Canada with only one large project with the possible exception of the Lloydminster heavy oil upgrader.

So the risks in construction containment, and the risks of running into bottlenecks and inflationary bottlenecks are far less now than they were then without any risk calculation or risk factor being dealt with at that time. Nor was there, on the other side of the coin, a profit possibility. The agreement limited and prevented Manitoba from making a profit for over 25 years. If any profit then was derived that would be limited, as well, between the 25th year and the 35th year while, at the same time, costs which amounted to more than \$1 billion, if one extrapolated them out over the lifetime of the agreement, weren't taken into account.

Now, it's rather interesting that the Leader of the Opposition is saying that there are all these risks attached to the Northern States Power Agreement, when, in fact, you have some risks and you have a very good possibility of very significant benefits, whereas in the other instance you had no profits whatsoever and you had risks, but they said it was a good deal.

MR. G. FILMON: Mr. Chairman, we have no profits visible in this deal and we have a great many risks because our big risk here is on the interest costs that are being projected at 10 percent by Manitoba Hydro, and on the fact that there is no safeguard to whether or not our construction costs hold water.

What the the Minister is indicating is that the big risk that was in the Western Electric Intertie was that

Manitoba Hydro's own estimate would have been faulty. I think that that, sir, is something that Manitoba Hydro will have to answer to him for then, if they don't believe that their own estimate was able to hold water.

MR. CHAIRMAN: Mr. Manness.

MR. C. MANNES: Mr. Chairman, just a couple of questions regarding this area of profit. I'm sure many of us around this table have a different definition of profit. When I worked in the corporate world and we were involved in selling commodities, we always placed a cost against the selling of anything as replacement cost. Does Mr. Eliesen feel that that type of approach has been used in determining his profit, the profit that he presents before us? Has the sale been made basis replacement cost of the 500 megawatts?

MR. M. ELIESEN: Mr. Chairman, I'm not sure I understand what Mr. Manness refers to as replacement costs. If replacement cost is the average Manitoba Hydro cost, no. We've undertaken this arrangement on the basis of incremental cost which is the most expensive cost. Had we used replacement or average costs, in our judgment it would underrepresent and underestimate the costs attributed to making this sale.

MR. C. MANNES: Did I hear Mr. Eliesen correctly when he said that, in fact, replacement cost, the building of a new facility would be the methodology in use, are we to enter into a long-term agreement with WAPA, necessitating another major plant on the Nelson - Conawapa, to be specific?

MR. M. ELIESEN: Mr. Chairman, I believe I've already answered that question on the pricing principles that are being utilized in the negotiations between the Manitoba Energy Authority on Western. I'm afraid I can't add to my earlier remarks since it would affect, obviously, our negotiations.

I did indicate in answer to Mr. Filmon that point No. 8 of the Letter of Understanding clearly makes reference to a guaranteed minimum price and in our evaluation we would take into account, obviously, a number of the factors that have been referred to earlier.

MR. H. ENNS: Mr. Chairman, we're having trouble determining the word "profit" obviously. I'm not from Missouri, I'm from Woodlands, but we understand that we're probably similar, and nothing that has transpired in this committee has really satisfied me that we have taken into account the kind of advice that was given to the Manitoba Government back in '73 or '74 by a person not of my political persuasion, by a Professor Kierans, who had some very strong points of view on this question endorsed by the current Chairman of the Manitoba Energy Authority, Mr. Eliesen, that Manitobans should be very careful about entering into these massive development programs such as that we're contemplating on the Nelson unless we see an opportunity of recovering for ourselves our capital costs, and related costs, principally interest, of course.

I must tell you, Mr. Chairman, through you to the Minister, that you haven't given us that kind of information. The Minister keeps talking about the word

"profit." He specifies it: \$1.7 billion profit in this sale. He is supported by his Chairman of the Energy Board as saying that is a very conservative estimate. It could be considerably higher.

My constituents are going to ask every April when Manitoba Hydro rates go up, what is being done with that \$1.7 billion profit? Even if taking into account the costs of advancing Limestone that we have been given, some \$421 million, where is the profit that this government and this Minister talks about? Mr. Chairman, they are going to ask that question repeatedly.

Perhaps the biggest ongoing mega project that we enjoy in Western Canada is the export of our grains. I heard coming into this committee meeting this morning that the Canadian Wheat Board indicates that they will likely set a record this year exceeding or approaching some export sales of 30 million tonnes of grain which, in dollar figures, is probably in the order of \$8 billion to \$10 billion.

Mr. Chairman, western grain producers are going broken in larger and larger numbers, because at \$4 a bushel of wheat, we're not recovering our costs. In exporting, we're doing a lot of trading and we're earning a lot of important dollars for Canada, but you tell that to the western grain producer who is faced with ever rising costs in producing the product, in this case wheat, it's not creating any prosperity on Western Canadian farms.

I've heard the projections from the the President of Manitoba Hydro, that in addition to the 8 percent increase that we received a year ago - the 9 percent or vice versa or whatever it is - 9 percent increase in Hydro rates this year, that we are looking to projected increases in the order of 6 percent virtually ad infinitum, certainly well into the year around 2000, and the word profit is going to be very difficult to understand by my constituents. Manitoba Hydro, after all, is not a private company that pockets the \$1.7 billion or is obligated to increase the dividend payout to its shareholders.

We are their shareholders and the least I want to hear, the least I want to have coming out of this committee that I can assure my constituents, my hydro users that their rates will be stabilized. I'm not opposed to developing the Nelson, although I remind Manitoba Hydro officials that their charter, their legislation, calls for providing energy at the most economic rate possible; that's the heart and guts of their legislative authority to do what they do.

If it means that they can provide that energy through diversity agreements such as the MANDAN Line and to put off until more opportune the construction of Limestone, then that is fulfilling their charter and their legislative responsibility. Manitoba Hydro is not here to prop up an incompetent, tired government. Manitoba Hydro is not, as much as we all applaud it, an employment agency to provide jobs when jobs are badly needed in this province, indeed, as they are badly needed across this country. Manitoba Hydro's responsibility under the legislation they operate under is to provide energy with the most economic means possible.

Mr. Chairman, we haven't been receiving that kind of assurance, that as desirable as this sale to the Americans may well be, that the risks are covered, that Manitoba Hydro users and general taxpayers will not

somewhere down the line be asked to pick up costs over and above of what would have been the case if the deal had been negotiated under different premises.

HON. W. PARASIUK: Yes, obviously there is a very . . .

MR. H. ENNS: Well, Mr. Chairman, let me just ask before the Minister responds. I just want to ask, what does he intend to do with the \$1.7 billion profit? How is he going to make my constituents in Lakeside feel better about that?

HON. W. PARASIUK: I was just going to tell you. It would be my hope to come to the Legislature next Session with a proposal as to how that \$1.7 billion will be used and I certainly would look forward to receiving the very substantial and significant support of the House Leader of the Conservative Party in that request as I make that proposal at the next Session. We certainly will, in fact, be able to show that the profit can, in fact, be used to the betterment of Manitobans and to the benefit of the Hydro ratepayers because we have, in fact, tried to negotiate deals which will indeed provide a profit if they are sales outside of Manitoba.

We believe that we have done that, and that's in stark contrast to a steal whereby one made a commitment of a whole dam for 25 years, and basically said that there would be no profit for 25 years, so you had no extras. In addition, you didn't take into account the costs of over \$1 billion that would have had to be picked up by the ratepayers of Manitoba. I wish the member had been that concerned when he was a member of the previous administration. I wish he had been that concerned then, but he wasn't that concerned then because maybe they were trying to prop up what the people of Manitoba concluded in November of 1981 was an incompetent government on its last legs.

But the people will judge this particular deal, and this is a deal that, in fact, is proceeding. We can notice a very substantial difference between the Conservative and New Democrats, and that's fair enough. The people can judge the differences between the two sides on this.

I assure the Member for Lakeside that I will come to the Legislature next session with a very clear proposal as to how the \$1.7 billion will be used. I will certainly expect and hope that I would receive . . .

MR. H. ENNS: I'll invite you to the Woodlands Community Hall after the next hydro rate increase, and you can tell them what you're doing with the profit.

HON. W. PARASIUK: That's right. The other thing about that is that we in fact will have, both today and into the long-term future, really the lowest rates in North America, the lowest rates in North America, and they are predictable rates. That is in stark contrast from a lot of other places.

We do have a tremendous future. Now is the time not to be timid, not to be sitting there, totally, as I think the position of the Conservative caucus now is, in contrast to what Sterling Lyon said in the legislative committee a couple of years ago with respect to Hydro where he said that you shouldn't just talk about, in a sense, not constructing anything. I can recall his

questioning Blachford at that time, questioning him pretty hard. Now what we see is the entire opposite position being put forward today by the Conservative Party.

We are saying that we should proceed with development, that development can proceed, that one should take into account the risks and try and minimize them and if one is making sales outside of the province that one should take into account profits and try and maximize them.

Again I find this rather ironic. The Conservative didn't want to talk profits when they were making export sales over a 25-year period and the New Democratic Party which, contrary to what some people might think, does believe in profits, in fact, has negotiated very diligently to try and achieve a profit of at least \$1.7 billion. So here we have an interesting situation. The NDP are pro-profit and the Conservative are anti-profit, and I find that rather surprising. It has been a rather interesting flip-flop or reversal of positions.

Again we can let the people judge on that. We can let the people judge whether, in fact, they think we should try and make profits if we make sales outside of the province or not. They should also determine whether, in fact, we should be trying to promote Hydro development, rather than in a sense slow it down or impede it. They will have that interesting contrast to choose from.

The other thing is that we, as government, as an administration, will search out all of the options and cover all of the options to ensure that we just don't put all of our eggs in one basket, but rather have three or four or five alternatives to choose from because we believe that puts us in a better bargaining position to choose the best deal.

Again, that is in stark contrast to the previous administration which turned its back on sale possibilities in the United States, very clearly and definitively turned its back on those sale possibilities, because it said that it was going to put all of its eggs into a Western Intertie sale, even though the clear facts today indicate that Alberta, because of the economic downturn, doesn't need the power, probably won't need the power for 10 or 15 or 20 years from 1990; that presently it is freezing in midstream the construction of two thermal plants that were started and which were supposed to precede a Western Intertie; that they have no options whatsoever. So what they did, they cut off their options in the south, put all their eggs in the Alberta option, and the Alberta economy is not going anywhere.

So they will have a chance to judge those alternatives as well. I can appreciate the Member for Lakeside having his concerns. We had those concerns, and they were concerns that were first raised in 1973. I believe that the people involved with the Manitoba Energy Authority and Manitoba Hydro have done a very very good job over the last two years of searching out all of the options east, west and to the south of us to try and develop and negotiate the best possible deal for Manitobans, both today and over the course of the next 10, 15 and 20 years.

MR. G. FILMON: Well, Mr. Chairman, the Minister has gone back to the standard speech that he has given several times before on this matter.

HON. W. PARASIUK: It's a good speech.

MR. G. FILMON: He says, it's a good speech. It makes him feel warm all over, but . . .

HON. W. PARASIUK: No, it makes the people of Manitoba feel warm all over.

MR. G. FILMON: Well I'm afraid not, I'm afraid Manitoba taxpayers have a cold chill when they see that it is not a New Democratic Government that likes profit, but a New Democratic Government that doesn't understand what profits are; who sets up an operation and says that it's like investing in a manufacturing operation, but you don't take into account the repayment of the interest charges on setting up that manufacturing operation. All you do is take into account what costs you have for moving it forward a couple of years in construction and that's a vastly different manner of looking at it.

I would suggest, Mr. Chairman, that their view of what is profit and what isn't is a vastly different view than their partner in this agreement, Northern States Power, would have. As a publicly traded corporation that does indeed make profits on the supply and distribution of energy in the United States, if they didn't take into account the interest charges on all their capital invested in their plant they wouldn't be in business very long and their ratepayers, or at least their shareholders, wouldn't have any confidence whatsoever if they brought before them this kind of analysis of what is profit and what isn't profit.

Mr. Chairman, I can tell you that their analysis would be entirely different to this, but then they're a private corporation and they understand profit, not like a New Democratic Minister who is trying to conjure up a new view of what profit really is.

Mr. Chairman, all that the Minister has assured us through this whole analysis is that the ratepayers of Manitoba Hydro can be assured of a doubling of their rates between now and 1993, and that an even greater rate of escalation of their hydro rates beyond that as the absorption of the capital costs of investment in this whole development take place and become integrated into the system. So those are the kinds of assurances that send a cold shiver up the backs of most Manitobans.

Mr. Chairman, I wanted to ask one further question with respect to all of these various proposals that the Minister has laid on the table before us. I don't know whether he would like to answer it or the Chairman of MEA, but what is the proposed method of calculation of the energy rate which will be offered to Alcoa for their operation of an aluminum smelter here? Will they be getting their energy at the system average industrial rate, or will it be based on the construction of the next plant in the Manitoba Hydro system?

MR. M. ELIESEN: Mr. Chairman, since we are in the middle of discussions and negotiations with the Aluminum Company of America, it would be quite inappropriate for me to go into any information on this area, except to indicate what has already been indicated publicly by the Minister, is that the power contract, if we're successful with Alcoa, will be based on a full

cost recovery over the length of agreement of the contract. We are not looking on any subsidization from Manitoba Hydro related to power rates in the provision of energy for the proposed aluminum smelter. The principle is full cost recovery over the length of the contract.

MR. G. FILMON: My second question for Mr. Eliesen with respect to the Alcoa proposition, would Alcoa come to Manitoba if the Government of Manitoba were not prepared to invest in 50 percent of the capital cost of the smelter?

MR. M. ELIESEN: Mr. Chairman, I really can't answer that question. It related really to the environment and the general discussion, which then resulted in the company agreeing to seriously investigate establishing a smelter here in Manitoba. All I can refer to is certainly the world trend patterns that are existing in which governments are heavily involved in the construction of any new facilities. In the Canadian case I can only refer to the recently established Pechiney Smelter at Bécancour in Quebec in which the Provincial Government in Quebec has a very active interest. But this is a worldwide phenomenon so it is not unusual with regard to the Manitoba case.

MR. G. FILMON: Who will be doing the environmental analysis on behalf of the people of Manitoba in respect to the aluminum smelter?

MR. CHAIRMAN: Mr. Minister.

HON. W. PARASIUK: Yes, that would be done by the Provincial Department of the Environment and the PLUC process. There is an independent process in place that does the reviews of environmental and socio-economic insurance.

MR. G. FILMON: Who will set the environmental limits with respect to the smelter?

MR. CHAIRMAN: Mr. Eliesen.

MR. M. ELIESEN: Mr. Chairman, it's my understanding that an announcement on this matter will be coming from the Department of Environment or the Minister responsible for PLUC, which is an independent regulatory review, if the smelter is to proceed. The Manitoba Energy Authority, as part of the proponent, are not involved in that particular process, but we understand that there's an independent environmental review and analysis related to any proposed aluminum smelter.

MR. G. FILMON: That independent analysis and review is being done by staff of the Government of Manitoba?

HON. W. PARASIUK: Yes it is.

MR. G. FILMON: In view of the fact that the Government of Manitoba proposes to be a 50-percent partner in this smelter, what assurance do the people of Manitoba have that this indeed can be an independent review and analysis?

HON. W. PARASIUK: Well I think that the PLUC process has proved to be of value in determining the site locations of a transmission line, proposed transmission lines to the south of us, there's been interaction with the public and the proponent in that instance has been Manitoba Hydro. At the same time there has been a process in place whereby the environmental concerns were dealt with. We have that in other instances. We have instances where the environmental protection entity has to deal with Trout Lake Mine where Manitoba has a 27 percent interest. We have other instances where the environmental protection agency has to deal with Manfor. I believe in the integrity and I have confidence in the integrity of that environmental agency to do its job properly and I believe the people of Manitoba have confidence in their ability to do their job properly because of the past proven performance of the bodies.

MR. G. FILMON: Will there be a socio-economic review as well of the potential affects on Manitoba for the location of that smelter in Manitoba?

HON. W. PARASIUK: If a decision - and this should be understood - if there is a decision to proceed then the environmental review takes place, the socio-economic review takes place, and that certainly would take place upon the completion of an agreement to proceed.

MR. CHAIRMAN: Unless there are any more questions maybe the committee is now ready to approve this report of the Manitoba Energy Authority?
The Leader of the Opposition.

MR. G. FILMON: Mr. Chairman, I just want to ask one further question. With respect to the proposed time of construction of Limestone, we are saying it is now how many years from start-up to actual in-service of the entire number of generating units in the plant?

MR. CHAIRMAN: Mr. Eliesen.

MR. M. ELIESEN: Mr. Chairman, I believe it's eight years.

MR. G. FILMON: Eight years.

MR. M. ELIESEN: The first two units would be . . . Well, let's start from scratch. The new in-service date is 1991; two units would be in place in 1991; another five would come in in 1992; and the remaining three in 1994.

MR. G. FILMON: What is the time length that would have been necessary, for instance, in order to get the cofferdams and things in place to the stage that they are now; what was the time invested in getting it to that stage?

MR. CHAIRMAN: Will the member repeat the question?

MR. G. FILMON: I think Mr. Arnason heard my question.

MR. CHAIRMAN: Mr. Arnason.

MR. J. ARNASON: Relative to the question I believe it related to the total time frame and putting the present facilities in place, and we did that during a period of approximately three years for the cofferdam, the road systems, the camp and the townsite.

MR. G. FILMON: So, Mr. Chairman, that means that the entire project is a 12-year project? That seems to me to be enormously long, given earlier estimates back in the 70's; I thought that the time frame was considerably shorter than that.

MR. J. ARNASON: I would consider, Mr. Chairman, the time frames for the system planning studies and moving ahead with the project to completion, is a time frame of about 12 years today. It certainly isn't shortening.

MR. G. FILMON: Has that time frame increased over the past while?

MR. J. ARNASON: No that time frame hasn't increased over the past month.

MR. G. FILMON: No, not over the past month, since it was originally conceived. Was it always a 12-year project from start to finish?

MR. J. ARNASON: It was in the period of about 10 or 12 years. It depends on the environmental studies that are required and the degree to which they are needed or the extent of the environmental studies.

MR. G. FILMON: What environmental studies are currently contemplated?

MR. J. ARNASON: There is an environmental study under way at the moment and it will be completed in the next few months.

MR. G. FILMON: So that isn't going to add any time to it then?

MR. J. ARNASON: We don't expect so, Mr. Chairman. My remarks relative to environmental studies are projects in general. In the Nelson River system, we seem to be fortunate there that the environmental damage seems to be minimal.

MR. G. FILMON: Mr. Chairman, can the Chairman of MEA or the Minister give any indication to when the National Energy Board hearings might be held on this proposed sale or the contract that's been entered into with Northern States Power?

MR. M. ELIESEN: Mr. Chairman, it's our hope to forward the application within the next week to 10 days and we would estimate, depending on the NEB schedule, but hearings would take place either end of September or October, in that time period, but we don't know with what certainty yet.

MR. G. FILMON: Will those hearings take place in Ottawa or in Winnipeg?

MR. CHAIRMAN: It is not within the jurisdiction of anybody here to know whether . . .

MR. M. ELIESEN: It's at the board's discretion and I can't say at the present time.

MR. G. FILMON: Mr. Chairman, that's what I'd like to know. Is there a move on the part of Manitoba Hydro or the Government of Manitoba to hold the hearings in Winnipeg? Would there be a request on their part to hold the hearings here so that more Manitobans might be able to sit in on them?

MR. M. ELIESEN: Mr. Chairman, it's my understanding the board makes that judgment with regard to hearings. Maybe Mr. Arnason has additional information.

MR. J. ARNASON: Our experience has been, Mr. Chairman, that our involvement with National Energy Board has been that they've held hearings in Winnipeg to accommodate the local people.

MR. CHAIRMAN: Are we ready to approve this report?
The Leader of the Opposition.

MR. G. FILMON: Just prior to moving motion that you may want someone to move, I just want to lay on the record that there are many concerns that have been raised by virtue of the review of this matter. The fact that the proposed sale does not relate to the capital costs of construction of Limestone; the fact that we are facing a doubling of rates by 1993 at Manitoba Hydro and then perhaps an even greater escalation; the fact that the load growth projections appear to be, in my view at least and in the view of others who have looked at them, load growth projections for the domestic requirements of Manitoba Hydro appear to be greater than what is being projected by other utilities in North America; and the fact that we bear all the risk of the volatile interest rates in the construction of this next plant, in that there appears to be a very very strange analysis of costing of this sale in order to arrive at a presumed \$1.7 billion profit, I think should lead many Manitobans to question the method of analysis of the Manitoba Energy Authority in arriving at this kind of proposition.

I, for one, sir, am very concerned that Manitobans have a great many risks in their future as a result of the kinds of dealings that this Minister and this Energy Authority have put into this agreement.

HON. W. PARASIUK: Again, in response to the final comments of Mr. Filmon, I think it should be clearly put on the record that there is no projection of a doubling of Hydro rates to 1993. The intention is to keep Hydro rate increases below the rate of inflation, and that is the intention of Manitoba Hydro, and it's the intention that the government concurs with.

With respect to profit calculations for the Northern States Power sale, it should be clearly understood by all, as Manitoba Hydro staff indicated, the profit calculations were done by Manitoba Hydro on the basis of what might be called generally accepted utilities financial and economic analysis. I guess what we have here is the world being a bit different than Mr. Filmon sees it when it comes to the utility analysis.

The final point is that, sure, there is going to be a difference of perspective as to the risks and the benefits. I find it a bit unusual that Mr. Filmon is heightening all the risk that were never heightened prior to 1981 and is now putting them all in the most negative possible light. At the same time - there were risks in '81, there are risks today, we don't deny that there are risks - at the same time, the potential for return to Manitoba is tremendous in comparison to the other proposal. Right now Alberta's coal costs are a third of Minnesota's, so you get the incredible difference for profit potential.

MR. G. FILMON: It wasn't based on Alberta's coal costs.

HON. W. PARASIUK: Alberta's thermal facilities cost a lot less than Minnesota's because they don't have the same pollution problems that Minnesota does because it's a different type of coal. We have a comparative advantage in dealing with utilities to the south of us that we didn't have in dealing with utilities to the west of us and, although a Grid is laudable, we find that the profit potential or the benefit potential is very significant, significantly greater than it was with respect to the Western Intertie. We believe that the risk element is less.

We don't have an overheated Western Canadian economy; we do have a better opportunity of getting better pricing; we do have a better opportunity of realizing a profit. As I said to the Member for Lakeside, we certainly look forward to coming to the Legislature next year and presenting concrete proposals as to how the profit will, in fact, be utilized for the future benefit of Manitobans. We certainly will be utilizing some of that profit to ensure that rates are kept below the rate of inflation and so that we, in Manitoba, continue to have Hydro rates which are the lowest in the Western industrialized world.

MR. G. FILMON: Mr. Chairman, I'd just like to, for the benefit of the Minister, perhaps the Manitoba Hydro people have not made him aware, but they tabled a table at the last meeting of the committee, or the meeting before that, that showed very clearly the forecast for rate increases for Manitoba Hydro between May 15, 1983 and the beginning of 1993 it would double. So, he may not be aware of that so I'll table that for his information.

MR. J. ARNASON: Mr. Chairman, the information that the member was referring to was a presentation by Mr. Fraser at one of our previous meetings. It's a projection that's included in our integrated finance plan. It is there as a scenario, an alternative to moving ahead with a stream of rate increases at 1 percent below the forecasted rate of inflation; it provided the board with information relative to the possibility of building up reserves to some level that are higher than the reserves at the present time; it showed the advantage of doing that in terms of making available funds, so that we don't have to have the 25 percent or 30 percent rate increases during the two or three years in which the capital costs of Limestone are brought into our operating plan. So it was an alternative and a scenario, and the board considered it in that light.

I would like to make another comment relative to the rates. I believe that the NSP Agreement will have a moderating effect on the rates in Manitoba. Relative to any rate increases in the immediate future, certainly our experience of the last nine months since that projection was made indicate very clearly that the rates would be lower than those types of predictions in that, if the last nine months is any indication of what might happen with inflation slightly lower, with our extraprovincial sales improving - in fact, in the last three months, our extraprovincial revenues have exceeded our estimates by \$9 million. The mill rate is higher than expected for our extraprovincial sales as well as the volume.

I'm optimistic also, because our operating costs are coming in at lower levels. Two years ago, our operating increases were at 16 percent; a year ago, they came in at about 7 percent. We expect that our operating costs this year will be at about the 5 percent level. So all of those components make me optimistic that we'll be able to moderate our rate increases.

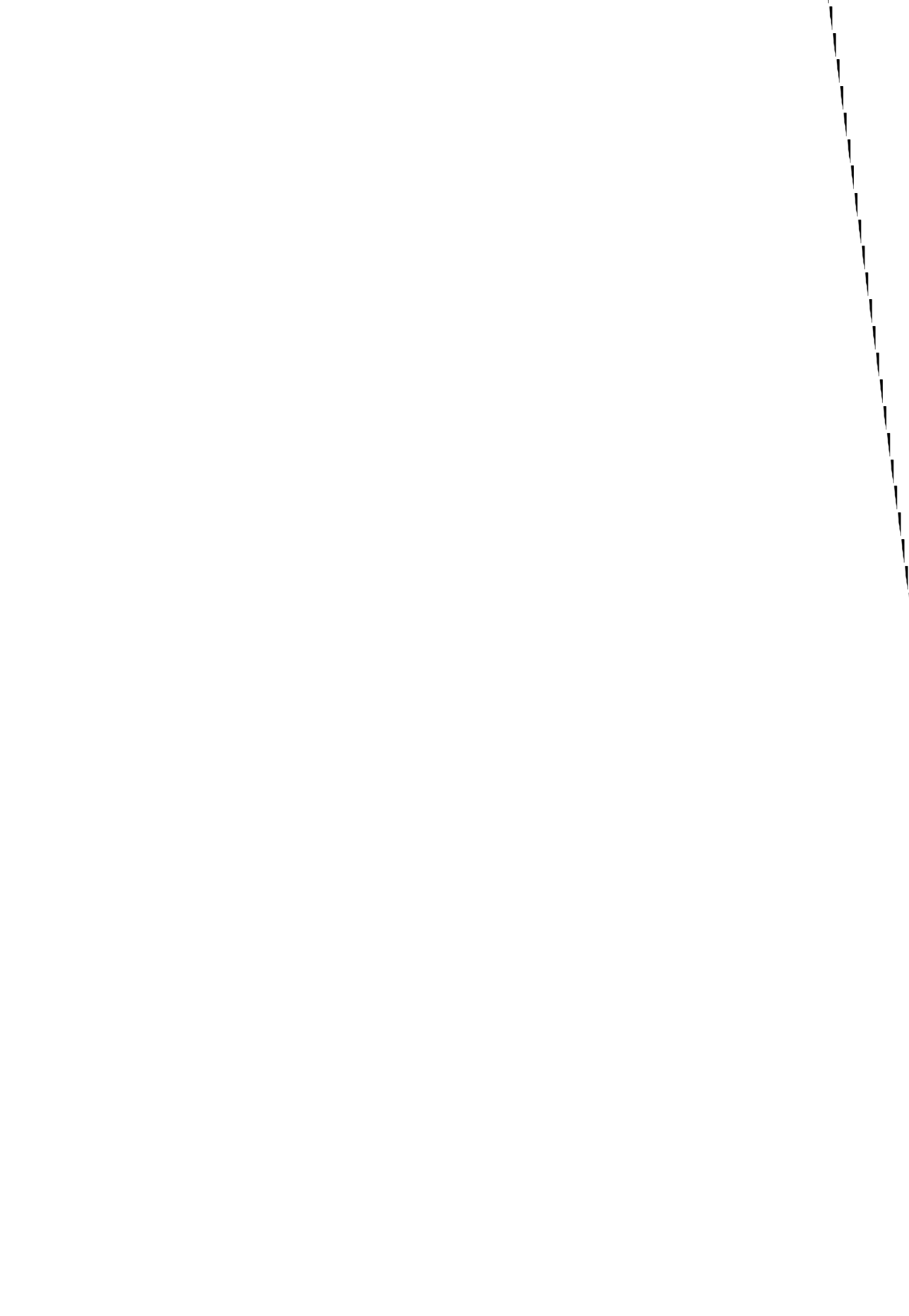
MR. G. FILMON: Mr. Chairman, if Manitoba Hydro is going to retract its forecasts of rate increases and deny that these are their best estimated forecasts, then they had better not provide any information to the committee. If that's their best estimate, then there is no point in us accepting it if they're going to turn around and deny it after being rebuked in the newspaper by the Minister.

MR. J. ARNASON: Those forecasts are made on an annual basis. We are now preparing new forecasts, and will be presenting them to our board in November-December period.

MR. CHAIRMAN: Are the members of the committee ready to approve and pass the Annual Report of the Manitoba Energy Authority? Pass.
Committee rise.

COMMITTEE ROSE AT: 5:00 PM.

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