

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

Thursday, 23 April, 1987

TIME — 10:00 a.m.

LOCATION — Winnipeg, Manitoba

CHAIRMAN — Mr. C. Birt (Fort Garry)

ATTENDANCE — QUORUM - 6

Members of the Committee present:

Hon. Messrs. Lecuyer, Parasiuk and Hon. Mrs. Smith (Osborne)

Messrs. Ashton, Baker, Birt, Dolin, Enns, Filmon and Maloway

APPEARING: Mr. M. Eliesen, Chairperson, Board of Directors, the Manitoba Hydro-Electric Board

Mr. G.H. Beatty, President and Chief Executive Officer, Manitoba Hydro

Mr. R.O. Lambert, Senior Vice-President, Customer Services and Marketing, Manitoba Hydro

Mr. J. Downey, Member for Arthur

MATTERS UNDER DISCUSSION:

Annual Report of the Manitoba Hydro-Electric Board for the fiscal year ended March 31, 1986.

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MR. CHAIRMAN: Mr. Eliesen, I believe you have some material for the committee.

MR. M. ELIESEN: Yes, Mr. Chairman.

At the last committee hearing, we indicated we would have available a Department of Energy staff study on Demand for Electricity in the United States. The staff study was just recently tabled which showed that the United States, particularly during the period 1991-1995, faced difficulties in meeting the kind of demand expectations on electricity. We have four copies of that staff study to be tabled.

MR. H. ENNS: Mr. Chairman, if the Opposition were to receive one copy, we're pleased with it, or two copies if they are available.

MR. CHAIRMAN: We'll give you two.

MR. H. ENNS: Thank you.

MR. CHAIRMAN: Mr. Minister.

HON. W. PARASIUK: I think that we have everyone here and I know that the Member for Lakeside indicated that some of his colleagues would be coming this

morning to bring forward particular constituency-oriented questions, and we'll await them, but I would ask the Member for Lakeside to take a big deep breath and . . .

MR. H. ENNS: Mr. Chairman, you're absolutely right, through you to the Minister, but it's obvious to me that some of my rural colleagues are doing what rural colleagues ought to be doing just about now, starting to put the crop in, and I think we'll proceed with the hearings.

I would ask some of the concerns that have been expressed to me, as an individual MLA, but also, as well, some of my colleagues; and it is of greater concern in rural Manitoba because the implications are pretty well solely related to Manitoba.

If we could have a current, updated policy of Manitoba Hydro with respect to hooking up to service - the policy has undergone some changes over the years. Just what is the responsibility of the applicant in the instance of a first request for hookup? To what extent does Manitoba Hydro carry some of the bringing-into-service costs?

We have situations, and they vary, where substantial deposits are required by Manitoba Hydro; in some instances, these are returnable after a five-year period. I wonder if somebody from Customer Services could just run through and put on the record that I could have with me as a guide when responding to constituents' requests on this matter.

MR. CHAIRMAN: Mr. Beatty.

MR. G. BEATTY: Mr. Chairman, our senior vice-president, Customer Service and Marketing, is here, and I think could probably give us a brief rundown on the service extension policy, and then we could go on from there with some specific questions, if that would be acceptable.

MR. CHAIRMAN: Okay.

MR. R. LAMBERT: Maybe a general comment to start is that . . .

MR. CHAIRMAN: Mr. Lambert, is it?

MR. R. LAMBERT: Yes, Mr. Chairman.

Our basic service extension policy has not changed since about 1983 in terms of things such as allowances and so on and so forth. Annually, of course, we do update our cost of providing service because of increasing costs of operation.

There are a number of basic policies - maybe I could explain how we approach each service request. That is, we usually look at what the cost of providing that service is as a result of estimating the cost of the

extension. We then provide what we call a construction allowance, that is, an allowance that Hydro provides, if you like, the investment that Hydro is prepared to make into that service extension; and the difference between the cost and the allowance that we provide is a contribution from the customer. There are different allowances for different circumstances.

For example, on a rural system in the farm area, we provide an allowance equivalent to three-quarters of a mile of rural line; in the case of a seasonal cottage, we provide allowance of \$600.00; in the case of a host of other types of services, the allowance is based on what we call a revenue test, which is three years of estimated annual revenue. So that's kind of the general approach that we take with our service extensions.

And, as I say, those numbers, the three-quarters of a mile, the \$600 for seasonal, and the three-year-annual-estimated revenue, are policies that have been in place since, I believe '83 was the last time they were changed.

So if you took, for example, a rural customer that was, say, half a mile from our distribution system and his facilities, his farmstead, was located within two spans, as we call it, of the road allowance that we would normally go down, then he would basically get service free of charge, on the one hand, because the construction allowances that we provide, three-quarters of a mile, would cover the cost. If, on the other hand, he was, say, a mile or a mile-and-a-half away from the distribution system, then the allowance would be given for three-quarters of a mile and he would have to pay, as a contribution, the other three-quarters of a mile if he was a mile-and-a-half away.

For the seasonals, in a similar fashion, if the cost of providing an average lot in the seasonal subdivision was \$1,200 a lot, then there would be an allowance of \$600 and they would have to pay the \$600 difference. If, in another instance, there was a service to a commercial property and it was \$2,500 for the cost of that service, based on our estimate, and we revenue tested it and three years of annual revenue was \$1,500, then the customer would have to pay the \$1,000 which is the difference. I'm not too sure where to go from there.

MR. H. ENNS: Mr. Chairman, I appreciate that many of the complaints we get with this respect for hookup charges do come from people that have ill-advisedly chosen to locate themselves in the middle of nowhere sometimes, and then invite the kind of additional charges that can become extremely high.

You have a specific policy which I have some difficulty with, with reference to small subdivisions in a community - I'll use my own community of Woodlands - where your distribution facility is right there at the next post, but you are asking for very substantial up-front money for the first customer to hook up to that division. He will get some of it back in the succeeding three or four years if four or five other people hook up to it. I find difficulty with that explanation because we are not talking about a mile; we are talking about service from a post that is there.

I suppose the original agreement was made with the developer or whoever developed that lot into 10 or 15 lots, but for the individual purchaser of a home, or who is building a home on that development, he sees the

distribution one pole length away and is being asked, in some instances, for \$5,000, \$6,000, \$7,000 for hydro service, which he will get back in five years, and it varies, if there are another four or five hookups in that period of time.

Is that a practice; or could you explain that practice?

MR. R. LAMBERT: If, in fact, a customer was to locate adjacent to our line, adjacent to our distribution system, or locate into a development, a housing development, a residential development, for example, that already exists and is there, if it's an overhead service, he would get the connection free of charge.

Where we run into some difficulties is that these developments must be planned and laid out, and when service to the initial development takes place, we are put in a position where we have to build in what we call the backbone system. We have to put the main distribution system in to service the 12 or 15 lots, or whatever it is.

Typically, what happens, in an instance like that, is that once we put in the backbone system there might only be one or two customers hooked up to that initially. The posture, or the position of Manitoba Hydro, is that we're not into the real estate speculation and, as a result, we believe that we have to have our costs of putting in that basic system to serve all of those lots, albeit only one or two of them will get connected up initially. So what we do is we ask for an up-front contribution to cover the cost of that basic system that we put in, and then we provide refunds based on the construction allowances that I've mentioned, as and when the individual properties get connected.

Our posture is that, to do it otherwise, we find that we would have too much investment in facilities that are not being used and not generating revenue as a result of them not taking energy. We don't believe that the corporation should be in that, what I'll refer to as that speculative area of development.

MR. H. ENNS: I suppose it's because of, you know, the question that immediately comes to mind, is who initiated the development; who made the request for that development to take place; and whether that person and that party should then not be responsible for that?

I imagine that that's what happens in the larger developments in the confines of the City of Winnipeg. The individual homeowner who purchases his home isn't all of a sudden confronted with an additional \$5,000-\$6,000 request, which is pretty hard to come by for a young couple, a group that are, one imagines, stretching their resources at that particular time to make the capital decision to purchase a home. And then it comes to them as a bit of a shock when they realize they have to fund - and I appreciate Hydro's problem - these costs that you talk about.

I suppose what I'm looking for, is it because the developer is larger and pays Hydro for that development? When you develop a new subdivision or a new area of service in the city - Fort Richmond, Garden City - and Hydro does the same infrastructure work, who pays? You see, I'm not aware of city residents being asked to put up \$5,000-\$6,000 per hookup.

HON. W. PARASIUK: I'll just clarify, just make sure that Mr. Lambert . . . I believe that the system, and

I had been involved in a couple of subdivision developments where the developer of the subdivision factors into the cost of the lot that type of price so that each lot price reflects that particular cost. Now I'm not sure what might happen in some rural areas where the developer might come along and offer the lot at a cheap price and isn't factoring that in and, in a sense, is letting that person pick up that particular up-front cost, which should have been factored into the price of the lot and may, in fact, have affected the marketability.

I've had requests from some people in the past where they have wanted us to waive that and, in a sense, help provide some incentive for them to do their subdivision. But, as Mr. Lambert was saying, that we then become part of that development process and that certainly isn't Hydro's role.

MR. R. LAMBERT: I might be able to add some clarification.

Firstly is that we apply the same service extension policy throughout the province. Whether it's in the City of Winnipeg or Brandon, or in rural Manitoba, they are the same policies that are applied. Clearly, in the city, most of the development - whether it's in Winnipeg or Brandon or the larger centres - most of the development takes place by virtue of a developer dealing with Hydro where he pays the up-front money and he gets the refunds as a result.

From a customer's point of view, the individual that buys the individual lot or property, they don't see any additional costs to Hydro and presumably that is all factored into the cost of the serviced lot.

Out in the country, the majority of the developments take place in a similar fashion because we try to encourage some one individual, developer, or property owner to take responsibility for developing the property. If that takes place, then we have reasonable success and don't seem to have too much difficulty with our direct customer contact.

In some instances, they're fairly few. A person owning some property will subdivide it and won't service it, but will sell unserviced lots. So when the first customer comes along and says, "I want service to my lot," we may have to build a fairly extensive system to get a line into the property; we may have to put in part of that basic system in order to supply that one lot. What we do then is that we, in fact, say, "There's the cost of supplying that, to get service to you, albeit very expensive; here is the allowance that we provide, it's fairly small because you're only one customer."

Yes, you're absolutely right. To the customer it appears like an exorbitant amount, but it's consistent with our standard policy. Part of that results because the service is such that it could provide a lot more than that one individual lot, but that's the only one that's requesting service at that point.

Again, we have to go back and be reminded about our service extension policy. There are limits to the amount of investment that we will put into a single-service extension. The limits are the ones that I described to you: rural line, three-quarters of a mile; seasonal, \$600; and for others, 3 years of estimated revenue. If the cost is very high, those allowances are limited; then the contribution can be high.

MR. H. ENNS: Mr. Chairman, I appreciate the information that Mr. Lambert has provided. I would hope, nonetheless, that Manitoba Hydro, as much as we all, on this committee, particularly want it to be running its ship as efficiently as possible, I would, nonetheless, not, in these matters, forget that an important part of Hydro's mandate with respect to service to rural Manitoba is premised on the very fact that it is more costly to provide that service to rural Manitoba. There is, and ought to be, and has been, I understand, always a policy of Manitoba Hydro to accept that as part of the cost of an electrified rural landscape.

I suspect that you would tell me that the construction allowance of three-quarters of a mile is a substantial acknowledgement of that fact. I would go beyond that and say I appreciate that virtually in every instance, because of scale, because of distance, Hydro's costs will be higher in rural Manitoba than similar service costs will be in the larger urban centres. But I believe it's part of Hydro's mandate, and I would hope that over the years that hasn't been forgotten, to factor some measure of support in; or else we, in rural Manitoba, will find it more difficult, more expensive to get the kind of service that we have enjoyed over the years.

MR. R. LAMBERT: We are very concerned about our rural customers, as we are with all of our customers. We'd like to think that our policies do reflect concern for the rural customer. The three-quarter-mile-line extension allowance that you have just mentioned equates to about \$7,500 of allowance. That compares with the seasonal allowance of \$600; and, if you like, an urban allowance, for an urban subdivision, of about \$800 to \$900.00.

So we're talking about allowances for rural areas, in particular the farm areas, of in the order of 10 times what we are for other situations.

MR. H. ENNS: Mr. Chairman, one final question on this matter.

Comparable to our sister provinces, Saskatchewan and Ontario, in the same area, hookup-cost policy, would you describe Manitoba Hydro's policies as being comparable to other jurisdictions, more generous, more demanding in terms of customer-paying costs? Where would you put us on a scale of, say . . .

MR. R. LAMBERT: I could only answer that very generally. We do survey, from time to time, what the other people are doing. My recollection of the last survey is that we are very comparable and probably are in the lower half in terms of the utilities across Canada. In other words, we would tend to be a little more liberal, on average, than the other utilities across Canada in terms of the general service extension policy.

MR. H. ENNS: Thank you, Mr. Lambert.

MR. CHAIRMAN: Mr. Downey.

MR. J. DOWNEY: Mr. Chairman, I may be of some help here. I've got a series of questions and I want to deal specifically with what my colleague has dealt with.

The area in which I want to start with is, does Manitoba Hydro run an accounting basis; for example, do the rural services, the provision of the lines, the utility entrances and that type of thing, are they kept on a separate accounting basis, do they account on a divisional basis, or is it a part of the total Hydro pool? What system is used for cost calculations as to what the cost would be to put a service in?

MR. R. LAMBERT: They are done on a system basis. As a matter of fact, we have, fairly recently, in the last two or three years, tried to ensure that they are done on a system basis. We've tried to standardize and we have a standardized document out that provides for standardized pricing for service extensions.

MR. J. DOWNEY: The reason I ask, because it seems to me, and this is one of my, has been and will continue to be one of my pet peeves until I get a little bit more satisfaction; and that is, a standard policy when it comes to costing of three-phase power.

I know Hydro have their own work crews, their own equipment, and do all their own things. It's basically mechanical, it's structural work that is done, the putting of poles in the ground and the stringing of wire, and I know that it's, in a lot of cases, local people that are involved that have either been on Hydro for a long time, or just construction-type people which, certainly, when power is flowing through it is somewhat of a danger, but the actual structural work is pretty straightforward.

I don't know where they come up with their costs in some situations that are applied to putting in a three-phase power. For example - and my colleague from Lakeside, I'm sure, would be interested in hearing this - I'll refer to a letter which I sent the Minister some time ago, and it was dealing with the farmer who was having some difficulty getting final policy and billings, or getting some satisfaction on what was the initial attempt from Hydro, indicating that - and as I see the map that he has, it may be a little bit off - I think two poles put in to bring three-phase power, or it was the length of two poles in from the road, maybe a little further than half a mile to three-quarters of a mile; the estimate was \$10,000, in fact, the cost was \$10,000-and-some. He refers to a friend of his in Minnedosa that had three-phase power put in, I guess, '79, three-phase power put in for \$2,500 and, after seven years, he got the \$2,500 back. Now, either the information I have is incorrect or we're certainly lacking some consistent policies.

I know that I've had difficulties before dealing with people putting in electricity, three-phase power, for grain dryers running at different distances, and I just would ask that there be some consistency. I would prefer the Minnedosa formula where you would be able to give back. The distances may be different, there may be some variables that I'm not fully aware of, but it is confusing to the customers out there.

The other thing is how do we know what it's costing? There are no competitive rates as far as putting poles and stringing wire. In fact, I argued this at committee before. I have been told by qualified electrical people that when you're in some of the heavier soils you don't need to run any more wires, that all it is is a conversion at the poles of your transformers and the ground

actually works as your third wire, and wherever you have two wires you can provide three-phase power.

Now I realize in Saskatchewan a lot of the neighboring towns and areas that I live next to, they only have one wire. I know they can't provide three-phase power but they run their system on one line. We, in most of our communities, have two lines. I am of a clear understanding - I've been told this by several people - that you can give three-phase power with a minor transformer change at a minimal cost. It can be done in the heavy clay soils and I know that most of the soils that I'm talking about, I've been told it can happen. That's why I wonder if the people who are asking for this additional service aren't being taxed for some of the other money that Hydro is spending to develop the Hydro systems in the North. I know they have to pay a fair share, but goodness sakes . . .

A MEMBER: You're just talking about a \$7,500 break.

MR. J. DOWNEY: Well, if that's the case, if my constituent at Carroll is now going to get a \$7,500 break off a \$10,000 bill which he thought he'd have to pay \$2,000 a year for, then I'd be quite happy to accept that for him. I'm sure he'd be very happy because he's under some extreme pressure as well with the economic conditions the way they are.

Let's encourage the use of hydro in Manitoba. If they can put three-phase power in without a major expense to Hydro, with using the two wires that are there, and a conversion at the pole, let's try it. Give us some factual information as to why it can't be done.

I'm sure the Member for Lac du Bonnet sitting here has got many farmers who could have three-phase power with a very minimal cost if they have two lines running to their farm. I would think he would want to know, as well, if that could be accomplished. I think it would only be a service to the farm community. It costs less money for motors, for horsepower that you are getting.

Saskatchewan can't do it because they've only got one line. We are now equipped in most of rural Manitoba with two lines. If they can run their general hydro on one, what I'm saying is we can provide three-phase power with the two lines that we have. Mr. Mitchell from Roblin is an individual whom I have talked to many times about it. He's very strong on this . . .

A MEMBER: I think Mr. Lambert is talking . . .

MR. J. DOWNEY: Look, I've also talked to the electricians in my own home town - very reputable people. I don't discount what they say as know-nothing; there have been years of experience in the electrical business. So at least give it a try. I think that's what we can do in the best interest of both Manitoba Hydro in using the hydro, and also for customer service.

If there was a policy announcement that I missed, that there's now \$7,500 . . .

MR. R. LAMBERT: That's for new hookups.

MR. J. DOWNEY: Oh, that's for new hookups? Oh, I see. So the person who's been a long-time customer is discriminated against if he wants to modernize his hydro hookup?

MR. R. LAMBERT: No, if he just wants to go to three-phase power.

MR. J. DOWNEY: If he just wants to go to three-phase power, he's discriminated against. But it doesn't cost the kind of money that we're being told; that's what I can't understand. And if it is, then Hydro should look at contracting out some of the running of the poles and the wire and hire inspectors to oversee it. I said hire inspectors. I see lots of hydro lines like that now after windstorms and whatever, you know; it's no reflection on the Hydro crews.

But what I'm saying is: How do we know it's competitive? How do we know we're getting the right price for putting in our lines and our poles? I mean there's nothing to balance it against; there's nobody competing against it. It's strictly an in-house operation, so I'm sure the best efficiencies are tried to be wrung out of it. But I can tell you, I've seen some of the other Crown Corporations that are running and they aren't making a great amount of money. Hydro happens to be one that is making some; so there may be more to be made.

What I'm saying is it's a whole area that I would like to see - I would even recommend the Legislative Committee take a bit of time to spend some time at Hydro, to do some on-site investigations, and have some electrical people sit down in a committee and tell us what they know about it and tell me that I am wrong, in fact, that we can't provide three-phase power with two wires running that we now have.

I'm not sold on it, Mr. Chairman. It will take some time to tell me that I am wrong.

MR. R. LAMBERT: I will try to add some clarification.

You've posed several questions. Going back, first of all, if one is comparing a situation of 1980 with one of seven years later, 1987, then be reminded that in 1983, I believe it was, we did change our service extension policy. The type of service that I suspect you are talking about would be one that would be subject to the annual revenue test. Prior to 1983, our revenue test was 5.7 years of annual revenue, and after 1983, it was 3.33 years. So you can see that there is a considerable change in the amount of allowance provided as a result of that change.

In respect to consistency in pricing, it is clearly the objective of management to have consistency in our pricing, and if I was made aware of a circumstance that I could investigate, I would want to investigate it to see if in fact we have applied our policies in that fashion.

In terms of trying to get consistency, we do our estimates based on unit prices. There is a unit price for installing a pole, there is a unit price for installing so many feet of wire, and so on, and we use those unit prices with a view to trying to get consistency across the province. They're the average price of doing typical pieces of work. As I've indicated just recently, in the last two years, we have tried to issue a price quotation schedule out that is intended to go another step further in trying to get more and more consistency in the pricing.

In respect to the three-phase power, some of the comments that you have made are correct. There is,

in some instances, the opportunity to convert what is a two-wire system, if you like, in the rural area. One of the wires is what we call a phase wire and the other one is a neutral. In some parts of the province, due to good grounding conditions, we are able to convert the neutral to a second phase, and there is a manner by which we can take two phases into a farm and provide a three-phase service.

There are costs associated with that conversion. Sometimes we are talking about fairly long distances of several miles to make it, and so there are costs. In addition, the transformation in the farmyard from single phase to three phase is fairly expensive; the three-phase system is two to three times the single phase.

In addition to that, there are some limitations to that kind of a service, a service whereby we are supplying three-phase service at the farmyard off a two-phase system as a result of converting the single phase, with a phase and a neutral, to two phases. We have made some of those conversions and we will continue to do them within the limitations, the technical limitations, of doing them.

MR. J. DOWNEY: I thank Mr. Lambert for that response and I am pleased to know that they are proceeding.

Could he draw up - I don't need the direct response now - but could he give me a comparative cost as to the use of the two lines, and using that system with the transformer change within the yard as compared to having to do what I would consider the conventional three-phase power entry? Could he do a cost comparison so that I could have an idea and so we could inform the public? Because there are some questions out there.

You are dealing with a Crown corporation that has everything; they have all the marbles in their court. If you don't agree with them, what are you going to do? Who do you go to? There is no Court of Appeal. There is no alternative power supply. The lights go out and you become very cold in the wintertime and the freezer starts to thaw out. So you are really in a situation.

I'm not talking about people who refuse to pay their bills for certain financial or other reasons, but there are times of dispute, and when you are disputing with a Crown corporation without an appeal system, it can be a pretty one-sided event and that is where there are some frustrations.

I would appreciate those cost-factor figures, if I could.

HON. W. PARASIUK: We'll undertake to have them provided to me and then I'll provide them to the member. I believe Mr Lambert had . . .

MR. R. LAMBERT: Your comments about the ever-increasing costs and the efficiency of our operations are well taken. I think that we are concerned about being efficient in the interest of keeping our cost down, and that's an ongoing thrust of ours.

We don't have any good comparable figures. All I could say is that there has been the odd occasion when a customer has been, if you like, upset about the cost of servicing a small subdivision or something, and we've gone into discussions about the option of them using a contractor, and we have said yes, you can go ahead and use a contractor, have the line built, and provided

it is inspected and is up to standards, then we would accept that. I don't think we've had a case yet where the customer has chosen to do it himself as opposed to having us do it at our cost.

Whether that's a very good comparison or not, I am not sure, but it gives one a little bit of comfort in terms of us being in a position where we are the only ones supplying this kind of service.

MR. H. ENNS: Just more or less an observation, probably more directed to the Minister. I just want to support what the Member for Arthur is saying. Farm economy is in a crisis situation and it doesn't appear to be getting much better in the short term, and what worries most of us, the long term isn't that rosy either.

Anything that can help reduce on-farm costs, anything that can help make our farming operations take advantage of the best of technology now available surely ought to be a goal that any government and Manitoba Hydro would want to pursue. The advantages of three-phase power are very real to farmers - just the price differentials in the electrical motors that are required now, and for many, what you would call fairly standard farm operations.

I myself run a small feedmill, mix-mill operation, with 5, 15 and 10 horse-power motors. I can recall way back when I originally purchased that equipment, to have been able to have purchased three-phase equipment versus single-phase represented several thousands of dollars to me at that time. Those kinds of savings would only be escalated today.

I would ask the government, and I would ask Hydro to take this request from the Member for Arthur seriously and to be mindful of the kind of service improvements that you receive from time to time from your old and traditional customers as you busily pursue new and not so traditional customers across the borders of this province.

HON. W. PARASIUK: Yes, certainly, the comments of the Member for Arthur and the Member for Lakeside are well taken. I think that's something that Hydro tries to pursue on an ongoing basis. I think, to put it very simply, the customer is No. 1 in terms of Hydro's priorities and that's very important.

I've been impressed in the sessions that I've had with Hydro Board members, or with management, through seminars, that that is their first and foremost priority. I think that is not easily seen sometimes in terms of day-to-day operations. It's very easily seen when there's a crisis, usually in the form of a storm, and I think Hydro's performance has been excellent in those situations. But I think that the comments that were made are well-taken.

I'd like to add one other point, and that's that I, myself, have been looking at the notion of how one might be able to look at some way in which one can at least have a special look at customer relations. I get a number of complaints coming into my office, either directly, or they'll be funnelled by MLA's or municipalities or other people. I always try and take the complaint and make sure that I get the other side of the story, but one can't spend one's time doing that full time. And yet, at the same time, you want to make sure that those people who might feel frustrated for

one reason or another are, indeed, getting due process, getting a fair hearing.

So I'm looking at that particular concept, not taking anything away from how Hydro responds, but it's just good to have some system in place whereby maybe we could have some way of getting some feedback; even going out to various communities on an ongoing basis, getting a bit of feedback with respect to customer service, customer relations, and looking at some way in which we can ensure that there is due process when complaints are in.

I've been pleased to date, but, at the same time, I think that we always want to try and improve our performance and that comment is certainly taken under consideration.

MR. J. DOWNEY: Mr. Chairman, I'll try and put it so I am clear on it and so I can respond accurately and correctly.

Whether it be a customer in the City of Winnipeg, Brandon, any user of Hydro in the Province of Manitoba, when we see an increase, rural or wherever, an increase in our hydro rates, and we hear the comments from Mr. Lambert that the cost of installation is a part of the system's cost, that all activities within Hydro are reflected in everything they do, that it is a flow-through charge to each and every customer of hydro in Manitoba, and I assume that that's correct. If not, I stand to be corrected.

So, you know, we all tend to live within our perimeters, our fence lines, and we're worried about our day-to-day costs and our activities. I'll try and relate what a lot of my constituents in the average community that I represent think; and that is, they don't particularly have the same kind of ambition to get into the big export market of the major export sales in the way in which the government and Hydro are now proceeding. Every time there is an increase, whether it's a cost of service for three-phase power, whether it's a hookup or whatever, the comment is made - and I say this with all sincerity - the comment is made "Well, we have to help pay for Limestone. We have to help pay for the major development in Northern Manitoba on Hydro. We have to pay for all that development."

Well, the answer that I have is "yes," that they have to help and they are, as the way in which I've been told at the committee here today, that it is part of - maybe it isn't Limestone, but all the development - it's part of systems costs; whether you have a hydro pole put in, whatever you have done dealing with Hydro, that it all reflects through the whole system.

So, as long as I'm correct in saying yes, when your hydro goes up, when the services that are provided, whether it's a hookup to your house in the City of Winnipeg or whether it's a hookup to your farm, to your business or whatever, it has a relation, the whole thing is directly related. There is a direct tie to the activities within Hydro. That's, as I understand, systems financing. If I'm incorrect, then I would appreciate being corrected.

As well, I have another question dealing with the comments that were made the other day, and that was when my colleague asked a question about what we were doing with Conawapa. The answer was, and I haven't got Hansard, but as I understand, it was that

we have Highways now working on surveys and preparing the sites and the roadways to Conawapa.

Is there a contract between Highways and Hydro, or is there a payment across to Highways, or are Highways doing it gratis, or what is the agreement between Hydro and Highways?

Because I can tell you, we've seen a cutback in our Highways funding, probably \$20 million at least two out of the last three years, and I get somewhat concerned when I'm not able to get roadwork done in my constituency or other areas of the province and Highways are up doing this kind of work. I want to know if they're being paid for it. What is the agreement or what is the situation?

Two questions: One, basically, every time a cost increase, whether it's a hookup or whatever, there is a direct relationship to anything that Hydro does. Whether it's wages, whether it's the development of our line to hook up to our American friends, the whole business is directly related. Am I correct in that assumption?

MR. M. ELIESEN: Mr. Chairman, I'll just make a general observation and then Mr. Beatty can add in some additional clarification.

First of all, with regard to the overall systems costs and the relationship with export sales, this has been well documented. The export sales, both the ones we do today on an interruptible basis and the ones that are scheduled in the future with regard to firm long-term sales, will benefit the ratepayer in Manitoba. That's been documented sufficiently.

Now with regard to the services that are provided, clearly, when Manitoba Hydro, for example, announced the \$25 million program to fight the ice storms, which we are into our third year now, and that's taking place mainly in the rural situation - why do we do that? We do that in order to ensure that the standard of service that is provided to our rural customers is the equivalent that is provided to other customers throughout the province. So that \$25 million is shared by everyone. It is our priority, continues to be our priority at Manitoba Hydro, that the customer is the No. 1 emphasis of our *raison d'être* of doing business.

Now with regard to roads and road costs related to any planning on Conawapa, maybe Mr. Beatty can add some information on that.

MR. G. BEATTY: The Department of Highways is not yet involved in any work on an access road. We're just in the throes of completing an arrangement, but yes, it would involve some payment from Hydro to Highways for that work when it does take place.

MR. J. DOWNEY: I thank Mr. Beatty for the comments.

I have one final comment to make and that's on the overall costs. I'm not so sure that the average Manitoban is sold on the idea that the Crown corporation, Hydro's activities, going into the international market in the manner in which it's been done is in their best interests. I can assure you that I'm not sold on it.

I think the record of whether it's MTS going into Saudi Arabia, or these experiments or these ventures that are taken off without a lot more serious, long-term

planning, and I say particularly to the production of Hydro, until the customers in Manitoba are assured that we are going to recover the cost of production for what it is costing to build, what it is costing to distribute, what it is costing to maintain and to look after all those related activities, until somebody shows them a firmer contractual agreement than what they have now seen, they are not sold, I am not sold, on the benefits of it.

Mr. Chairman, that is where I differ with the chairman of Hydro and also the Minister. I'm sure that the average citizen out there who, up until this year as I understood the report had said, had the lowest hydro rates in the country. Now we're to almost the highest rates in the country and as we progress or proceed it appears as if we're trying to catch a few other jurisdictions. I don't particularly, on behalf of my hydro users and constituents, want to be in the race, to be quite frank with you, to try and catch up to other jurisdictions.

We've had the Premier make a lot of noise about the natural gas prices and the fact that he is going to see that quite a bit is done. I think it may be as well for him to take a look at the cost of providing hydro services and other utility services which the government is responsible for as well. I would hope that the government and the people who are responsible keep that in mind. They do have a responsibility to look after the customers in the province and not hang them with something that they'll never be able to pay for.

As I said, I am not convinced that our contracts are that sound. I would feel a lot better, as a person who's been in the farming community and a price taker all my life, that I would like to see the sale of hydro on one that is on a firm contractual basis, based on the cost of production in Manitoba, delivered to a point of which it's received, and we know what our built-in profit is. That is not in any agreement that I've seen and I do not have the confidence in this government, in the way in which they are carrying it out, and they will have to prove over the next few years they have left that that is so. I leave my comments with that, Mr. Chairman.

MR. CHAIRMAN: Just before the Minister responds, I'd like to advise committee members that there is coffee behind me, should you wish to avail yourself of it.

Mr. Minister.

HON. W. PARASIUK: Yes, I feel compelled to respond to the comments by the Member for Arthur, who has switched tracks pretty dramatically from talking about factual matters into the realm of fantasy. I grew up on a farm as well and there are a couple of sayings, "You can lead a horse to water but you can't make him drink." The other saying is, "Some people don't want to be confused by the facts."

We have provided facts to the committee which indicates that we do have the lowest rate structure and we have indicated in previous sessions of this committee that there may be one or two instances where that might not hold true with specific cases, but the documentation has been provided to the committee. I'm not sure if the Member for Arthur was here for the previous sessions, but he's now leapt from saying that we have the lowest rates to amongst the highest rates.

That is a flight of fancy, Mr. Chairman, that I didn't think the Member for Arthur had a pilot's licence, but I gather that he is able to do those things, the "Peter Pan" of the Manitoba Legislature.

I'd like to take on another point with respect to documentation. The firm power sale of the Northern States Power Sale went before the National Energy Board. They had 11 days of hearing; they had about three months of detailed economic technical analysis on their own, as a separate body. It is a federal quasi-judicial body, well staffed, senior people on it. I guess it was at one time under the aegis of the Federal Liberal Government; by the time the hearings were conducted, it was under the aegis of the Federal Conservative Government. They came to the conclusion that the price negotiated was the best possible price and that this was a very good deal for Canada, a very good deal for Manitoba, that there were very major benefits which they quantified and which they made public.

That's a pretty independent body and I don't know what one could do. One could probably provide 10 of those documentations and the Member for Arthur could still take the position, "I do not believe this, because I believe that the earth is flat." One can take that position, it's an internally consistent position. You could hold it, and it sounds good, and if people come forward to you saying the earth is flat, you don't have to dissuade them that the earth is not flat; rather you can say, that's right, I think you're right, the earth is flat.

Now, one can be a great proselytizer in that respect and I know I heard the Member for Kildonan indicate earlier, when -(Interjection)- Oh, this is wild. I just would like to indicate that James Irwin Downey does have a private pilot. Now I know why he goes into these flights of fancy. I never knew it before. Secondly, I would think, knowing that, I'm going to develop the profound fear of flying.

But I did hear the Member for Kildonan, in a quip, that undoubtedly when people come along and say that one is having to pay higher cost because of export sales, when, in fact, the documentation for a number of years out of Manitoba Hydro, through all administrations going back many, many years, has indicated that there are benefits to the ratepayer from export sales, especially with the hydro-electric system, especially with different peak demands, especially with seasonal loads, is immense; that the Member for Kildonan quipped that the Member for Arthur undoubtedly corrects those misguided people who might think that export sales are a benefit to the province. I would hope that the Member for Arthur does, in fact, act in a responsible manner, and like the Red Baron, shoots down those people who have false impressions about the way in which our hydro-electric system operates.- (Interjection)- Is this thing still valid?

A MEMBER: He wants to go for a trip.

HON. W. PARASIUKE: It says 1967.

MR. J. DOWNEY: Mr. Chairman, only one response to the Minister, and if I indicated that we had one of the highest, then I will withdraw that. We probably will have, before very long at the rate we're going, I should qualify that . . .

MR. CHAIRMAN: Mr. Findlay.

MR. G. FINDLAY: I guess I'd like to just carry on from the Minister's comment awhile ago that the customer is No. 1, and find out what Hydro's policy is on dealing with farm customers who have intensive livestock units. The situation that I want to get some idea what the policy is, is when there is scheduled line shut-off, if there's some work to be done on the line and the power is going to be shut off, are those intensive livestock unit owners informed ahead of time of the pending scheduled shut-off - this is not an act of God shut-off - this is a man-made shut-off?

The reason I ask the question is because one of my constituents phoned in a month or so ago and said that he was quite disturbed because two years ago, his power was shut off without him being informed, and he was fortunate enough that day that his barn doors were open so enough air got in to keep the heat down and to keep some oxygen there for his pigs. But about three weeks before he phoned me, he had had '10 minutes' notice that day that there would be a line shut-off, and he said, what if I wasn't at home? Would the power still have been shut off? He says, that day, my doors were shut up and I certainly had to act in terms of opening the door to prevent the build-up of heat or prevent loss of animals from suffocation.

So he's concerned whether there is a consistent policy of notification. He would like to see a notification of at least a day and wants to know, if the notification does come along and he's not at home, will the power still be shut off? What is the policy of Hydro with respect to these potential situations?

MR. R. LAMBERT: Our posture is that generally we would notify customers for planned outages.- (Interjection)- Our posture in that regard is to notify customers of intended and planned outages. In particular, we are very concerned about livestock operations for the reasons that you have explained, the possibility of ventilation fans not functioning properly and putting the livestock at risk. So we keep pretty close track, as I'm aware, of those types of operations in the districts, so that we can take into account the concerns of livestock operations when we have planned outages.

I think that, under normal circumstances, we would like to think that we give reasonable notice of a planned outage. I would have to look at this particular circumstance to see whether or not, albeit it was a planned outage, it was something that had to be done on fairly short notice or not.

MR. G. FINDLAY: Is there any requirement that a certain degree of notice be given or that somebody definitely be present when the notice is given and, if somebody's not present, if they will try to find somebody who is a neighbour or something to get contact to the potentially affected individual?

MR. R. LAMBERT: I would think that, in the case of livestock operations and our staff being aware of the risk to the livestock of not having electricity, we would not want to shut the power off if there wasn't someone around to take care of the situation while the power was off.

MR. G. FINDLAY: Thank you for those comments. I guess the next question is - you probably had this happen once or twice - in the event that power is shut off and animal loss occurs, who is liable?

MR. R. LAMBERT: I'm not sure on that one but I think that, if it was a planned outage and the customer was notified of the outage and unless there were any extenuating circumstances that the customer had said that he couldn't afford an outage, I would think that, as long as the customer was there and was monitoring the situation, Hydro would assume that the responsibility is with the customer. I think our responsibility is to make sure that the customer is there and is aware that the power is being shut off, and that there's concurrence that the power can be shut off safely.

MR. G. FINDLAY: This doesn't apply in this particular case but maybe, for my own information, I'd like to have some idea what is the policy of liability when there's an act of God shut-off of Hydro when there's animal loss?

MR. R. LAMBERT: Using those words, "act of God," then Hydro takes the posture that we're not responsible.

MR. G. FINDLAY: Just again, in general question, there are a lot of intensive livestock units around the province. Are you aware of how many of these or what percentage of these have standby power units installed? Any idea at all?

MR. R. LAMBERT: Just off the top of my head, I couldn't answer that question. I know that we monitor the situation closely to keep track of those ones because, as I say, we're well aware of the risk of a power outage to those places, as we are with hospitals and other things.

MR. G. FINDLAY: Have you, at any time, made any contact with those kinds of customers to request that they do have standby power, or do you have any recommendations for them as to the kind of standby power or whether it can be hooked up in conjunction with Hydro that it would kick in immediately? Has any of that been developed?

MR. R. LAMBERT: We have publications that we have had for several years now which outlined the types of standby units that can be provided, tractor driven, gasoline engine driven or whatever. Also I believe that publication reflects that we recommend that standby units be available for those types of operations, because there are circumstances which we can't control in which power outages will occur.

MR. G. FINDLAY: Thank you.

MR. H. ENNS: Mr. Chairman, just on another subject, Mr. Filmon raised this to some degree at earlier hearings.

I would like to ask, with respect to your new venture, Expertise for Export, where anywhere in the financial reporting of Hydro's activities in your annual report do costs and/or revenues associated with that part of new

operations of Hydro, where do we see it reflected in your accounting in your annual report?

MR. G. BEATTY: Mr. Chairman, could I just clarify the question? You're referring to new plant or are you . . .

MR. H. ENNS: No, I'm talking about - I understand, if I recall correctly Mr. Filmon's questions, we are selling expertise abroad. You're involved in several different countries - China, Egypt. I'm talking with respect to page 17 of your annual report, which talks about marketing the skills of your employees.

My understanding from the answers given to Mr. Filmon was that we were recovering full salary costs, plus a markup. Obviously, there has to be a revenue figure attached to this kind of activity, and I'm just wondering how that is reflected, or costs associated with this program. If you are involved in Egypt, and you're on a subcontract with Ontario Hydro on a five-year, \$12 million project that is being financed through Canadian International Development Agency, where are Hydro's costs and earnings showing up in your annual report?

MR. G. BEATTY: Mr. Chairman, those don't appear broken out and separately in any place in the report. They're in the operating statement, but we could certainly get those cost-revenue numbers.

MR. H. ENNS: Mr. Chairman, and specifically to the Minister and to senior Hydro staff - I say this with every amount of respect - the difficulties that your sister corporation got themselves into over at Manitoba Telephone System, to some significant degree, can be attributed to the fact that, at the one committee of the Legislature before Crown corporations annually appear for accountability to people of Manitoba, we had a great deal of difficulty. This very same committee had a great deal of difficulty going back to the years '82, '83 and '84, and properly understanding and being able to sort out the involvement of a subsidiary corporation established by, in this instance, the Manitoba Telephone System that was operating in Saudi Arabia.

Quite frankly, it was only after things had gone seriously awry that we, as representatives of the public, became knowledgeable about the fact that, yes, indeed, we were looking at very substantial financial obligations, between \$26 million and \$27 million. A reading of the reporting, the accounting procedures of MTS during those years leading up to that period of time did not give, in my information - and obviously, I think, in the information supported by outside auditing firms like Coopers and Lybrand - the kind of information that a reviewing committee ought to have.

I'm simply making a very strong recommendation to Manitoba Hydro, without any comment on the advisability or non-advisability of being engaged in this activity, that a hard look at how that activity is going to be reported, how that can be shown in future annual reports, and that in fact it can be separated out and shown in a very clear and positive way that future meetings of this committee can review and pass judgment on Hydro's activities.

With all due respect, I don't think that this committee should be asked simply on the say-so of executive

officers of Manitoba Hydro, say, that we are doing very well in Egypt or that we're doing very well in these undertakings; that we are in fact recovering our cost plus and, at the same time, providing a worthwhile service in terms of helping to redevelop other portions less privileged than ourselves in the world. From an accounting, the business procedure end, I would like that activity to be identifiable in your forthcoming annual report.

HON. W. PARASIUK: We have no problem with that. In fact, we'd be certainly quite happy to do that.

I'd like to just raise one point in that connection, in that basically I think there is a difference between Manitoba Hydro and Manitoba Telephone Systems. Manitoba's telephone system, even within Manitoba - and the Member for Lakeside, I think, was responsible for the Telephone System probably back about 1979, and you had something called Project Ida which was an approach to try and do something. You were selling hardware, you were selling systems, not just expertise.

What we are talking about here are people who have particular skills and experience, who can provide some training programs, provide some technical analysis virtually as consulting engineers. I think, in that sense, there is a difference, but we'll provide that type of information to the member.

The other thing that I think is important is that we in Manitoba are the one spot where people from around the world can come to and take a look at a functioning 900-kilometre, high-voltage, direct-current transmission line. I believe that the high-voltage, direct-current transmission lines will in fact not replace everything else, but will be a major wave in future hydro-electric or other types of electrical development around the world, because you have countries that have significant hydro-electric potential, but this hydro-electric potential is some distance away from the population centres. Or you have other instances where you can either transport the coal close to a city, or you will develop the plant at mine site and then ship the power.

A great deal of the world is energy short. High-voltage, direct-current transmission is a very attractive option for them. They can come take a look at the Manitoba experience. It's an experience that has been there for, I think, 13 or 14 years. We have all the climatic variations, very hot summers, very cold winters, windstorms, snowstorms, sleet, everything like that, and we have a number of Canadian and Manitoba companies, in particular, who are the ones who will probably be able to take advantage of the fact that we exist here, demonstrating that high-voltage, direct current works.

So you've got Teshmont, which is a company that does well. We would think that there are other companies like Federal Pioneer and some of the other consulting companies who, we would hope, in Manitoba do take advantage of the experience that we've had, the proven experience, the proven track record and, in a sense, create a lot of economic activity within the province. I have talked to some of the professional engineering companies who have said that they have had, in some years, 85 percent of their work outside of Manitoba being provided 100 percent by Manitobans.

So there is a type of synergy between this type of electrical expertise in the province and the fact that

we're a publicly owned entity, whose first priority is customer service and providing for our customers. Yet, at the same time, we do have some skills. I think one has to be very prudent in how one proceeds and in providing these technical skills, making sure that one gets paid and not getting involved in the business of shipping equipment, building anything on turnkey. That's not the approach that's being taken at all.

MR. M. ELIESEN: Mr. Chairman, just could I add and confirm further to what the Minister has related? Manitoba Hydro has not established any subsidiary, nor is it its intention to establish any subsidiary in this particular area. We have a limited number of people who the board has agreed to be involved in this area because of benefit, not only to Manitoba Hydro but to the economy of Manitoba, particularly for those firms who are seeking and seeking successfully contracts in the international arena for these engineering skills.

Manitoba Hydro does have significant engineering skills which we can assist the private sector in getting major contracts in other countries. As the Minister mentioned, we do have a very enviable record here in the context of a major HVDC system, which many of the developing countries are extremely interested, where major expenditures are to take place in the future.

So we have, on a very limited basis, been assisting the private sector here in Manitoba and assisting also in the context of making Manitoba known in the world of the kind of hydro system we have, being involved in limited CIDA-related training programs with these emerging countries which will require that expertise in the future. It's our intention to continue on this limited basis, which has proven to be beneficial to Manitoba industry.

MR. CHAIRMAN: Mr. Beatty, did you wish to add . . .

MR. G. BEATTY: Just a minor clarification, a minor point on the member's original question, I indicated that these costs do not appear anywhere in the annual report, but we have established Export Services as a cost centre. We know exactly what's in this, apart from any Manitoba benefits that are impossible to quantify. We have set it up as a cost centre, internally.

MR. H. ENNS: I thank Mr. Beatty for that information, Mr. Chairman. I would simply make a suggestion that in future annual reports - and I appreciate this is a new venture beginning this year - that consideration be given to somehow noting that in the annual report so it can be identifiable.

The chairman of Manitoba Hydro answered the concluding question that I had with respect to Hydro's intentions of establishing any thoughts about establishing subsidiary firms. The Chair and the committee will forgive if I see the parallels in the situation. MTS and MTX started out in precisely the same way, selling expertise, subcontracting expertise, in this case, to Bell Canada who had a contract in Saudi Arabia.

We began that way and developed into a full subsidiary corporation, a partnership arrangement with foreign people and firms that did business in a way that, quite frankly, wasn't totally acceptable to the way

we do business or we expect our Crown corporations to do business. I'm satisfied from the responses from Hydro that is not Hydro's intention.

I would simply ask that this area of activity will be looked at by subsequent committees as you proceed and it would be helpful to have that highlighted.

HON. W. PARASIUK: You know, I would tell the Member for Lakeside that, as I indicated before, we'll provide that information for future meetings. As someone who was involved back in 1979 as this whole thing evolved with Project IDA and MTS, I can appreciate the member's caution. I will, in fact, take the transcript of his statement and send it to the Alberta Telephone System who, in the financial papers today, I note, is getting involved in some joint venture in Saudi Arabia. And I know that the . . .

MR. H. ENNS: Maybe they ran into Sonny Birchfield, eh?

HON. W. PARASIUK: Possibly. And I would think that the Member for Lakeside would want to warn his Conservative colleagues in Alberta that they probably shouldn't be doing this type of activity.

MR. CHAIRMAN: Mr. Filmon.

MR. G. FILMON: Mr. Chairman, I wondered if I could have the CEO or Chairman of Manitoba Hydro give me some information on a topic. Earlier, both the Chairman and the Minister were glowingly touting the benefits of export sales of hydro-electricity.

I have a publication called Electricity '86 published by the Canadian Electrical Association, which seems to be an annual summary of utility statistics across the country. On page 10 there's a comparison of power exports and revenues, province to province, in the major utilities. It shows in a comparison that the revenue for 1985, which is the year for which the statistics pertain, the revenue and dollars per megawatt hour, utility to utility for export sales, is the lowest in Manitoba of any of the provinces in the country. They range as high as New Brunswick, which is obtaining an average revenue of \$54.3 per megawatt hour and as low as, in Manitoba, \$17 per megawatt hour.

I would imagine that this has something to do with diversity exchange, interruptible versus firm power sales and so on, but the interesting thing I find is that they give you the percentage of firm sales that are involved in each of the utilities. Manitoba and Saskatchewan are almost identical in that Manitoba's percentage of firm sales is 8.1 and Saskatchewan's is 9.1; but Manitoba is getting an average of \$17 per megawatt hour and Saskatchewan is getting an average of \$25.7 per megawatt hour. I wonder if the CEO or chairman could tell me why we are getting the lowest revenues for our export sales of any utility in the country.

MR. M. ELIESEN: Mr. Chairman, in general, it would be nice to be located on the Eastern or Western seaboard where we would be shipping electricity into areas which have been and still are, to a large degree, oil or gas generated. That's the area that Quebec and New Brunswick and also, to a large degree, Ontario

Hydro, have been sending electricity which has been high-priced electricity.

Similarly in British Columbia, they've been shipping electricity into California, which also has been oil-based generated electricity. Those kind of returns are phenomenal - certainly much higher than what we can do, primarily because of our location. We are shipping into an area which is coal generated. In fact, we are shipping into the lowest cost lignite generated electricity in the United States.

In fact - I may have mentioned this at some earlier committee hearing - they have always generated electricity in the area adjacent to us through thermal, through coal, even when the price of oil was \$1 or \$1.50 a barrel because that was the cheapest form of generating electricity. This is why our returns in the past have never, nor can they attempt to come close to the very lucrative markets that exist for both Quebec, New Brunswick and B.C., on the two coasts.

At the same time, because we have been dealing with a coal-generated electricity area, there is a particular certainty in terms of our arrangements with them because we don't have to worry about substitution, whether the price of oil goes up or goes down significantly. And, in fact, the record has shown there is very little relationship between coal prices and oil prices over the last 20 years. Each have had their movements for different reasons.

In our particular case, clearly our export sales have been profitable in the past and will be even more profitable in the future.

Now, that's the general explanation with regard to why our returns are lower than those utilities in Canada which are shipping into a lucrative oil-generated electricity base.

On the specifics, with regard to Saskatchewan and ourselves, I'd have to look into that. Saskatchewan has a very limited diversity arrangement with Basin Electric and it may be a special factor why their returns for that particular year were higher than our rate of return. We can get that information and provide it to the committee.

MR. G. FILMON: Earlier my colleague was referring to the fact that every time something that Manitoba Hydro does goes up in price, it is said, well, of course we're having to pay for Limestone. Obviously we know firstly that the actual costs of Limestone are not yet being felt on the system because we're interim financing and the whole effect of the construction costs and interim finance costs will be placed on the system when Limestone is commissioned. What is the expected date that will be placed on the system, the costs of Limestone?

MR. M. ELIESEN: The expected date is what has been indicated before, when those individual units of Limestone come into operation. And so, two units will be coming into operation in November or December of 1990. Another five units - when I refer to units, I'm referring to the turbines and generators - another five will be coming into operation during the year 1991, and the remaining three of the ten turbines and generators come into operation in 1992. When those units come into operation, then they are accounted for in our cost system.

MR. G. FILMON: So that two-tenths of the total cost of Limestone will be placed on the system in 1990?

MR. M. ELIESEN: In 1990, that's correct. Well, roughly, when they come on. They come on stream in November and December, I believe.

MR. G. FILMON: So, it will be specifically, the date of commissioning of those two units, becomes the date at which one-fifth of the cost of Limestone is added to the capital debt of the system?

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

MR. G. FILMON: And so on, as other units are commissioned.

With respect to the anticipation of Limestone, Mr. Beatty, in an interview that he did for, I believe it's the Mid-Canada Commerce, in January, is quoted as saying that when the Limestone Generating Station begins producing power, its construction costs will also start to be reflected in the operating budget of Manitoba Hydro. In order to accommodate this increased operating cost, Hydro is attempting to build up a reserve fund which now stands at \$123.9 million through gradual increases in electricity rates.

"Such gradual increases in rates help avoid the rate shock of sudden large increases in the cost of electricity when new major generation and transmission facilities are placed in service."

In fact, we are preparing for that increased cost to the system by increasing the rates now until 1990, so that it won't all be evident at once, but it's really a gradual build-up.

MR. G. BEATTY: Mr. Chairman, I thought I had corrected that. I had actually asked that some of our people write to make the correction on that. The policy of Manitoba Hydro is to build reserves for purposes of dealing with a prolonged drought and that policy certainly applies to Limestone. I think in the context there, I may have left the impression that that was not the case, but that is certainly board policy and that is certainly the case with respect to Limestone. We do not require any increases for purposes of absorbing plant.

MR. G. FILMON: When the costs of Limestone, \$2 billion are added to the capital cost of the system, surely there's going to be the annual interest costs of at least, let's say a 10 percent, \$200 million a year. Is Mr. Beatty saying that will have absolutely no effect on the rate?

MR. G. BEATTY: Yes, exactly, Mr. Chairman. Our present plan, system of rate development, which all members are familiar with, will certainly accommodate that.

MR. G. FILMON: My recollection is that the current annual operating budget of Hydro is something in the range of \$600 million a year. Is that somewhere in the range?

MR. G. BEATTY: Yes.

MR. G. FILMON: Okay, let's say that by inflation by 1990, it's \$1 billion a year, I'm a little at a loss to understand how you could add \$200 million to the operating charges each year and not have any effect whatsoever on the rates.

MR. G. BEATTY: Well we assume that we will have a rate development that is closely aligned to the rate of inflation; and we've done a number of sensitivity studies and we've done a number of projections making different assumptions about interest and escalation. I can assure you, that takes care of Limestone.

MR. G. FILMON: You're either increasing the reserves, so that you can cushion it out, or you're going to have it "bang" all at once, \$200 million or more added to the operating costs.

I don't understand what other magic you can - coming here from outside the utility, you may have some special skills that will allow you, Mr. Beatty, to do this magic, but I think I understand a little bit of economics and finance and I want to know how you're going to account for this \$200 million.

The Minister for the Environment is questioning whether or not I have some understanding of economics and finance, but he's in no position to judge because he couldn't remember taking a \$20,000 loan to buy an SRTC . . .

HON. G. LECUYER: I'm not questioning - I know you have very little talent in that regard.

MR. M. ELIESEN: Mr. Chairman, we've provided information to the committee . . .

MR. CHAIRMAN: Gentlemen, gentlemen, can we come to order please?

MR. M. ELIESEN: Mr. Chairman, we've provided information to the committee; we've provided information in the past; and we've provided it this time, clearly showing that we don't need any special rights with regard to when Limestone comes on stream, when additional generation comes on stream. The policy of the Board of Manitoba Hydro is clearly, as an objective, is to have rate increases at or less than the rate of inflation.

We provided this committee in the past, the details related to that and we've also documented, very specifically before the National Energy Board, over three volumes, the impact on the system, under various different scenarios of inflation and interest, what that means to Manitoba Hydro revenues and, clearly, there are no rate shocks. The information is very factual on it.

If there are different assumptions that other people have, we certainly are prepared to listen and to discuss them with you, but as far as management's internal planning and the board's review of those figures clearly show, we don't need any special rates coming on when Limestone comes in.

And furthermore, we're furthermore encouraged by the kind of development that has taken place with a generating station that was initially thought to have been estimated, to come on stream at \$3 billion, is

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now at the present time being recorded at almost 42 percent less, at \$1.7 billion, and that gives us even greater comfort than what we had before, given the original estimates, which I remind members of the committee, were the basis upon which we were looking at of advancing Limestone with regard to export sales. Those were the major figures then, so if anything, given the very favourable experience we've had in constructing Limestone to date, we are even more encouraged.

MR. CHAIRMAN: Mr. Beatty, did you wish to say anything? I don't know whether you did or not.
Mr. Filmon.

MR. G. FILMON: I wonder then, Mr. Chairman, if I could ask Mr. Beatty, why he specifically made that statement in this article if it wasn't true? He said, "Such gradual increases in rates help avoid the rate shock of sudden large increases in the cost of electricity when new major generation and transmission facilities are placed in service." I might say that's a similar statement to what was made at the committee by a previous president or previous executive.

MR. M. ELIESEN: Mr. Chairman, as long as I've been around before the committee with the previous president, Mr. Arnason, at no time - and the record will clearly show it - that any special rate increase was called for with regard to Limestone when John Arnason was President and Chief Executive Officer.

The figures that we've been working with for the last four or five years have not changed, only to the degree that they become more favourable when a generating station that we estimated would be \$3 billion is now coming in at \$1.7 billion. So I must suggest to the committee that the information that has been provided by the previous CEO clearly indicated that no special rates were required when Limestone was coming on stream.

MR. G. FILMON: Mr. Chairman, that may be the case if you build up your rates along the way so that there's no special increase needed at that time. That may well be the case, but it's one or the other, and clearly, Mr. Beatty was indicating that it was the gradual build-up that would cushion the increase, and I understand he's retracted that statement; and I'd like to know why he made it in the first place, if it wasn't true.

MR. G. BEATTY: There is a letter, I believe they printed it, which did clarify that point. It may be that the member is not taking into account the very substantial volumes of energy that we will be selling at that point - at the point Limestone is being absorbed into the rate base - 6 billion kilowatt hours is very substantial and will have a substantial effect on revenue.

In the material that we tabled with the committee earlier, there is a chart indicating net revenue projections, assuming different rates of increase, and I think that makes it clear that we do not have a problem at that point.

MR. G. FILMON: But the utility has no commitments beyond current existing situations and agreements to

sell in 1990 or 1991 or 1992. My understanding is the NSP sale begins in 1993. That's when your income begins.

MR. G. BEATTY: That's right, that's correct. We've factored in nothing other than that.

MR. M. ELIESEN: Just to clarify, there may be some confusion. It is true that the firm power sale starts at 1993, but we are currently, for example, selling \$113 million in interruptible sales.

MR. G. FILMON: Without Limestone.

MR. M. ELIESEN: That's correct, but we will be selling less as we approach Limestone coming on mainly because we require that power for ourselves. Therefore, we will be selling smaller quantities of interruptible power. As the figures that we made public to the National Energy Board and before the committee in the past have shown, our revenue, we know there is a market there because we are selling it, and we are selling it at very good rates of return today. We will have less to sell as we reach 1990, because we will utilize that power domestically.

Therefore, when Limestone comes on stream, we know there's a ready market there that we will be able to sell at the same kind of levels that we are currently selling in the 1980's.

MR. G. FILMON: If that information that Mr. Beatty put in writing in January this year is categorically now being rejected by him as being in any way factual, that the gradual increases in electricity rates that were being put in by Manitoba Hydro would help avoid the rate shock of sudden large increases when Limestone facilities were placed in service, where did he get that information from that caused him to make that statement initially, if it is absolutely and totally incorrect?

MR. G. BEATTY: Basically, what I realized when I saw the article in print, Mr. Chairman, that it could be misleading and it could lead people to the impression that Limestone was going to cause a rate shock that would have to be absorbed. I, at that point, wrote or had someone write to the editor to explain that I did not mean it for that purpose. With respect to our future and Limestone, our current policy respecting rate development, increases closely aligned to the rate of inflation, will accommodate the absorption of the plant of Limestone. I regret that it caused that confusion, but I think that the letter did clarify it.

MR. G. FILMON: Clearly, Mr. Beatty is saying that he meant something else. But if I were to read it over and over and over again, I don't think there can be any other interpretation of what he said. In order to accommodate this increased operating cost, talking about the increased operating budget that will be reflected when Limestone - okay, I'll read the whole thing again.

It says: "When the Limestone Generating Station begins producing power, its construction costs will also start to be reflected in the operating budget of Manitoba Hydro." I think that makes sense to almost anyone.

"In order to accommodate this increased operating cost, Hydro is attempting to build up its Reserve Fund, which now stands at \$123.9 million, through gradual increases in electricity rates. Such gradual increases in rates help avoid the rate shock of sudden large increases in the cost of electricity when new major generation and transmission facilities are placed in service."

Who wrote that article for Mr. Beatty if he meant something else, because it doesn't say anything else?

MR. M. ELIESEN: Mr. Beatty can add if he would like. My only observation at this point with regard to the policy of the Board of Manitoba Hydro, and it's a policy that has been consistent for the last four years now with all of the information made public not only before the National Energy Board but before this committee, is that we have a rate policy in which our objective is to have rate increases at or less than the rate of inflation. The implementation of that policy will allow us to slowly build up our reserves to ensure that we have sufficient reserves for drought conditions and that no special reserves are required when Limestone comes into effect.

That clearly is the information that the Board of Manitoba Hydro has received from management, and it is the information that we've made public to the National Energy Board and to this committee.

MR. CHAIRMAN: Mr. Beatty, did you wish to . . .

MR. G. FILMON: Mr. Chairman, just if I can respond to Mr. Eliesen, who I did not ask the question of, but clearly he keeps repeating what the policy of the board of Hydro is.

We saw two meetings ago that Hydro Board is prepared to set a projected rate of inflation that's greater than that that's being set by anybody else to make their policy hold water when they increase rates by 5 percent, and inflation is only expected to be 4 percent or 4.2 percent. They say that the expected rate of inflation is 5 percent, just so that it meets their policy.

I mean, we're not talking about what your policy is. We know what your policy is. We're talking about the facts. Why would the president write something that appears to be absolute straight factual and in keeping with what most people would expect and then say he categorically denies that, that he didn't mean that?

MR. M. ELIESEN: Mr. Chairman, I must reject what the member has indicated to the committee. That is misinformation. The Board of Manitoba Hydro has never dictated to management what the rate of inflation will be, what the rate of interest will be. The board receives this information and comments on it obviously, but has never changed it. The information that was given to the committee last time reflects the factual situation.

Now, Mr. Beatty can add with regard to the letter that he sent, but clearly the Board of Manitoba Hydro has never changed either load growth, increased it or decreased it, has never changed the projections of interest rates or inflation. That was the factual information that was given to the committee last committee meeting, and that remains the factual situation today.

MR. G. BEATTY: Mr. Chairman, I think the problem arises in the conjunction of these two statements. There

may be occasions, I suppose, where you plan a rate development program with the intent of absorbing plant but, in our case, that is not true. A policy of orderly rate development with increases closely aligned to the rate of inflation will handle the situation as we bring Limestone into service. We have tried to indicate those numbers very clearly in the material that we tabled with the committee.

I recognize there's the general situation and the specific situation. When I saw those two together in that letter, I realized it was wrong or it could be taken the wrong way, and I sent the clarification for that purpose.

MR. G. FILMON: Mr. Chairman, I think it's a pity that the new CEO of Manitoba Hydro is now finding the reality that when he makes a correct statement it has to be recast in order to fit in with the politically cleansed, as my colleague from Lakeside says, in order to fit in with past and future intentions of the Board of Manitoba Hydro.

HON. W. PARASIUK: I'd like to comment on that. Occasionally, the Member for Tuxedo lowers himself to cheap shots, and we've got another example of that right now. Comments like that coming from the Member for Tuxedo are beneath contempt.

MR. G. FILMON: Mr. Chairman, my comments were made to the political masters, and I say this to Mr. Beatty, that it's unfortunate that he's put in this situation that his statements have to be changed and corrected by his political masters.

HON. W. PARASIUK: The Member for Tuxedo is saying that I, in fact, changed that statement?

MR. G. FILMON: I didn't say that, Mr. Chairman.

HON. W. PARASIUK: That's exactly what he said. Now, he's withdrawing his lies, Mr. Chairman.

MR. G. FILMON: No, the political masters are those appointed to the Board of Manitoba Hydro.

HON. W. PARASIUK: That is a lie as well.

MR. M. ELIESEN: I will say again for the record, Mr. Chairman, at no time did the Board of Manitoba Hydro direct the president or the chief executive officer to write anything of a particular line, and any suggestion to that is completely erroneous.

MR. G. BEATTY: Mr. Chairman, I would like to say that correction was entirely my own. The policy is clear. I think it's been enunciated, and I think that the evidence that we tabled supports it in this case.

MR. G. FILMON: Is there any particular reason why the CEO did not write his own letter of correction but had the PR person of Manitoba Hydro write his letter of correction?

MR. G. BEATTY: Mr. Chairman, no, there's no particular significance to that. I asked that it be done. This is

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often the case, the way Hydro does things. The public affairs people do try to maintain relations with various media, and we work through them, but I did look at the detail of the correction. I certainly approved that.

MR. H. ENNS: Mr. Chairman, just in conclusion, we in the Opposition, of course, will be looking forward to announcements, hopefully sooner rather than later, with respect to future conclusion of export sales that undoubtedly have to come, or else that shock on our rates that we have just spent a few moments talking about will be considerably more dramatic. We have received no particular assurances, other than that negotiators are working diligently and hopefully with success.

I note that the Minister appears to be pinning more of his hopes for future hydro sales with our sister province of Ontario. Quite frankly, members of the Opposition and people of Manitoba, it doesn't really make much difference where the sales are made as long as the sales are made, and made in such a way that the operating costs, the construction costs of the facilities that we are building, eventually for our own use but certainly have accelerated the construction period, to facilitate export sales.

We'll look with some anticipation over the next six months, twelve months, to whether or not the government and Manitoba Hydro can conclude some of these sales that will at least help still some of the growing concern on the part of the many individual hydro users throughout the Province of Manitoba who, after all, are totally and solely responsible for the costs incurred in the construction of these projects, that they at least have some hope of having these costs shared, some relief of future shock in rate charges.

MR. M. ELIESEN: Mr. Chairman, we are quite optimistic that we will have additional long-term export power

sales for Manitoba, and that these sales arrangements will be quite profitable not only to the ratepayer but to the economy of Manitoba.

But I must point out again and refer back to a statement made when I was before the committee as the chair and executive director of the Manitoba Energy Authority that the kinds of discussions and negotiations that we have under way with U.S. utilities and with Ontario Hydro, as well as perhaps with Saskatchewan Power, have no relationship whatsoever to the Limestone Generating Station. We do not have the kind of energy and capacity that those sales, if successfully concluded, would call for to come from Limestone.

As I mentioned in my opening statement before the committee, those sales, if negotiated, would call for additional generating capacity to be built here in Manitoba, and those sales would have to come from that additional new capacity. We do not have any new energy or capacity to be sold out of Limestone. The Limestone arrangement really relates to the Northern States Power sale and to Manitoba's own utilization.

So I want to be sure that members of the committee are aware of the fact that these arrangements that we were talking about with the Upper Mississippi Power Group and Ontario Hydro have to relate to new generating capacity. In general, we are quite optimistic that over the next 12 months some of those negotiations will come to a successful fruition for the ratepayer of Manitoba.

MR. CHAIRMAN: Is it the will of the committee then to pass the 35th Annual Report for the period ending March 31, 1986? (Agreed)

Committee rise.

COMMITTEE ROSE AT: 11:48 a.m.