



First Session — Thirty-Fourth Legislature
of the
Legislative Assembly of Manitoba

STANDING COMMITTEE
on
PUBLIC UTILITIES
and
NATURAL RESOURCES

37 Elizabeth II

Chairman
Mr. Harold Gilleshammer
Constituency of Minnedosa



VOL. XXXVII No. 1 - 10 a.m., TUESDAY, OCTOBER 11, 1988.

MANITOBA LEGISLATIVE ASSEMBLY
Thirty-Fourth Legislature

Members, Constituencies and Political Affiliation

NAME	CONSTITUENCY	PARTY
ALCOCK, Reg	Osborne	LIBERAL
ANGUS, John	St. Norbert	LIBERAL
ASHTON, Steve	Thompson	NDP
BURRELL, Parker	Swan River	PC
CARR, James	Fort Rouge	LIBERAL
CARSTAIRS, Sharon	River Heights	LIBERAL
CHARLES, Gwen	Selkirk	LIBERAL
CHEEMA, Gulzar	Kildonan	LIBERAL
CHORNOPYSKI, William	Burrows	LIBERAL
CONNERY, Edward Hon.	Portage la Prairie	PC
COWAN, Jay	Churchill	NDP
CUMMINGS, Glen, Hon.	Ste. Rose du Lac	PC
DERKACH, Leonard, Hon.	Roblin-Russell	PC
DOER, Gary	Concordia	NDP
DOWNEY, James Hon.	Arthur	PC
DRIEDGER, Albert, Hon.	Emerson	PC
DRIEDGER, Herold, L.	Niakwa	LIBERAL
DUCHARME, Gerald, Hon.	Riel	PC
EDWARDS, Paul	St. James	LIBERAL
ENNS, Harry	Lakeside	PC
ERNST, Jim, Hon.	Charleswood	PC
EVANS, Laurie	Fort Garry	LIBERAL
EVANS, Leonard	Brandon East	NDP
FILMON, Gary, Hon.	Tuxedo	PC
FINDLAY, Glen Hon.	Virden	PC
GAUDRY, Neil	St. Boniface	LIBERAL
GILLESHAMMER, Harold	Minnedosa	PC
GRAY, Avis	Ellice	LIBERAL
HAMMOND, Gerrie	Kirkfield Park	PC
HARAPIAK, Harry	The Pas	NDP
HARPER, Elijah	Rupertsland	NDP
HELWER, Edward R.	Gimli	PC
HEMPHILL, Maureen	Logan	NDP
KOZAK, Richard, J.	Transcona	LIBERAL
LAMOUREUX, Kevin, M.	Inkster	LIBERAL
MALOWAY, Jim	Elmwood	NDP
MANDRAKE, Ed	Assiniboia	LIBERAL
MANNES, Clayton, Hon.	Morris	PC
McCRAE, James Hon.	Brandon West	PC
MINENKO, Mark	Seven Oaks	LIBERAL
MITCHELSON, Bonnie, Hon.	River East	PC
NEUFELD, Harold, Hon.	Rossmere	PC
OLESON, Charlotte Hon.	Gladstone	PC
ORCHARD, Donald Hon.	Pembina	PC
PANKRATZ, Helmut	La Verendrye	PC
PATTERSON, Allan	Radisson	LIBERAL
PENNER, Jack, Hon.	Rhineland	PC
PLOHMAN, John	Dauphin	NDP
PRAZNIK, Darren	Lac du Bonnet	PC
ROCAN, Denis, Hon.	Turtle Mountain	PC
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ROSE, Bob	St. Vital	LIBERAL
STORIE, Jerry	Flin Flon	NDP
TAYLOR, Harold	Wolseley	LIBERAL
URUSKI, Bill	Interlake	NDP
WASYLCIA-LEIS, Judy	St. Johns	NDP
YEO, Iva	Sturgeon Creek	LIBERAL

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

Tuesday, October 11, 1988

TIME — 10 a.m.

LOCATION — Winnipeg, Manitoba

CHAIRMAN — Mr. Harold Gilleshammer (Minnedosa)

ATTENDANCE — QUORUM - 6

Members of the Committee present:

Hon. Messrs. Findlay, Orchard

Messrs. Doer, Driedger (Niakwa), Storie,
Taylor

APPEARING: Mr. B. Ransom, Chairman, Board of
Directors, Manitoba Hydro

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

Mr. R. Brennan, Vice-President Finance and
Chief Financial Officer, Manitoba Hydro

Mr. D. Kilgour, Vice-President, Engineering
and Construction, Manitoba Hydro

MATTERS UNDER DISCUSSION:

Manitoba Hydro-Electric Board

* * * *

Clerk of Committees, Ms. Janet Summers: Will the committee please come to order. We must proceed to elect a chairman for the Committee responsible for Public Utilities and Natural Resources. Are there any nominations?

Hon. Glen Findlay (Minister of Agriculture): I nominate Harold Gilleshammer.

Madam Clerk: Are there any further nominations? Mr. Gilleshammer, will you please take the Chair.

Mr. Chairman, Harold Gilleshammer: I call the Committee on Public Utilities and Natural Resources to order to consider the Annual Report of the Manitoba Hydro-Electric Board.

I would invite the Honourable Minister to make his opening statement and to introduce the staff present here today.

Hon. Harold Neufeld (Minister of Energy and Mines): My only statement will be that this being my first experience with a committee, as it is with a number of you, I will introduce the Chairman of the Manitoba Hydro-Electric Board and he will then introduce the staff. Brian Ransom.

* (1005)

Mr. Brian Ransom (Chairman of the Manitoba Hydro-Electric Board): Mr. Chairman and members of the committee. Thank you, Mr. Minister.

I welcome this first opportunity to appear before the Standing Committee on Public Utilities and Natural Resources as Chairman of the Manitoba Hydro-Electric Board and to participate in the presentation of the 36th and 37th Annual Reports.

I know that Manitoba Hydro will benefit from the questions and comments that the Honourable Members will have to make.

May I begin by drawing the Members' attention to the composition of the board, which is listed on page 4 of the most recent Annual Report, and for the record I will list them:

Dr. John S. McCallum is the Vice-Chairman. He is with the Faculty of Management, University of Manitoba.

Rod J. Beaudry is with the Production Division of Manitoba Hydro.

William E. Cheater is with the Regional Services Department, Manitoba Hydro.

Charles E. Curtis, the Deputy Minister of Finance and the Executive Director of the Manitoba Energy Authority, Province of Manitoba.

Mr. Harry Enns, the MLA for Lakeside.

Darlene Hildebrand, an Investment Advisor with RBC Dominion Securities.

Dr. Edmund Kuffel, Dean of Engineering, University of Manitoba.

Clyde R. McBain, President and General Manager, Ancast Industries Ltd.

Ken Patino is with the General Engineering Division, Winnipeg Hydro.

Dr. Harold J. Perkins, Faculty of Education, Brandon University.

At this point, I would like to acknowledge the professional and cooperative manner in which the staff of Manitoba Hydro have responded to the many questions put to them by myself and other members of the board since the changes took place in the board a few months ago.

There are several policy questions that have been examined since my appointment as Chairman of the Board, and I think it would be appropriate to outline these to the committee.

First of all, Manitoba Hydro forecasts that additional generating capacity will be required by 1999, and management has been asked to examine all possible means of meeting that requirement, including extending the life of the existing thermal plants and evaluating the smaller Wuskwatim plant in addition, or as an alternative, to the Conawapa plant.

Secondly, the potential importance of the Free Trade Agreement to Manitoba Hydro. I asked the staff of Manitoba Hydro, and sought cooperation from people in the Attorney-General's Department, with Industry, Trade and Tourism, with the Manitoba Energy Authority and, of course, with Manitoba Hydro and the Department of Energy to examine as many of the various positions and interpretations of the Free Trade Agreement as possible with respect to how they might impact upon Manitoba Hydro.

That committee has put in a considerable amount of work and, of course, management of Manitoba Hydro have also addressed this question extensively and Mr. Beatty will be outlining the position that management of Hydro has arrived at.

* (1010)

A third area that we have examined was already being examined to some extent when I assumed the role of chairman, and that had to do with the current interest in the greenhouse effect, the potential long-term implications upon a hydro-electric facility such as ours if some of the interpretations that one presently hears about the potential impact of the greenhouse effect should in fact prove to be true. There was some work going on in-house; but, in addition to that, we are also now participating in basically a private organization called the "Partnership for Sustainable Development," which includes quite a number of agriculturally-oriented companies—the Pools, both Saskatchewan and Manitoba, Mohawk Oil, Ducks Unlimited, Federated Cooperatives, Cargill Grain—a number of organizations such as that that are presently beginning to be concerned and are addressing this question. So Hydro has been participating with them and we are pleased to see that this partnership has been able to play some role in bringing the Centre for Sustainable Development to Winnipeg.

It has been confirmed, also, that in discussions with the Government that Manitoba Hydro will continue to receive published rates for power sold to users that might be attracted here—large users, intensive energy users, such as an aluminum smelter or some of the other metal processing proposals that have been looked at. It is being confirmed that Hydro will get their standard rates and that any subsidy or any incentives that might be required would come from some other source than directly from Manitoba Hydro.

In conjunction with that, I can tell the committee that I have recommended, after a discussion with management and with the board, that the Government repeal The Manitoba Energy Foundation Act, and that all future revenues from sales of hydro-electric power would revert to Manitoba Hydro.

A large area of public concern, and of concern within Hydro also, is the question of accountability. I would like to outline a few of the actions that have been taken and we are contemplating taking in the area of accountability.

One of these is that the Audit Committee of the board plans to be more active than has been the case in the past and to work cooperatively with the Internal Audit

Review Committee that has recently been established within the management of Manitoba Hydro. We think that is a necessity in order for the board to be more aware of some of the management practices within the corporation.

As the Members will know, The Freedom of Information Act has been proclaimed at the end of September and Hydro expects to be fully operational in that area by December. I think we have had our first request for information already. Management is being encouraged not only to observe the letter of the law but also the spirit of the law, and that generally we are encouraging an atmosphere of openness with respect to information from the corporation.

Another area that has been of concern to myself and others associated with Hydro is the fact that a corporation such as ours is in a monopoly situation in dealing with our customers, and that where there are customer complaints, customers ultimately have no choice but to seek solution and seek redress from the corporation. Of course, their original problems lie frequently with the corporation, so we are going to look for some method of providing an objective independent means of settling certain types of disputes so that the public does not feel that they are totally captives of the corporation when they have problems with the corporation.

* (1015)

Service committees are, of course, presently required under the law and we intend to hold the first service committee meeting probably in December of this year. We will evaluate how those committees function in terms of getting feedback to the corporation and, indeed, getting the corporation's positions across to the public as well.

In addition to that, it is our intention to take board meetings out into the country. The December board meeting, for example, will be held at Brandon. There will be meetings with some of our larger power users at that time, with representatives of municipal corporations, and the public generally, where we will have not only the board and senior management of Hydro present, but also some of our regional staff as well, so there will be an opportunity there for the users of Hydro to interact directly with a broad range of people involved in policy setting and management of Hydro.

We are also attempting to increase the general sensitivity that the corporation has towards its customers, in line with what I mentioned earlier, concerning the dispute settlement panels. As an example, it came to our attention that people who had declared personal bankruptcy were not in fact relieved of their responsibility to pay Hydro bills. This seemed to us to be an unjust situation and so the policy within Manitoba Hydro has been altered, so that persons who have declared personal bankruptcy and in order to try and get a new start will no longer be pursued by Manitoba Hydro to collect previously outstanding bills.

Lastly, in the area of accountability, I have recommended, again after discussion with the board and management, to the Government that Manitoba

Hydro should submit its long-term capital plans, as well as operating plans, to the Public Utilities Board perhaps every three years, but that would be up to the Government and the Legislature to determine precisely how often they wanted that to happen. We believe that will do more to enhance the accountability of the corporation than any other single act that can be taken. Up until now, there has been no non-partisan objective forum where the plans of Manitoba Hydro could be reviewed in their entirety.

We are therefore recommending that Hydro appear before the Public Utilities Committee to review its long-term plans and of course the rate increases that flow from those long-term plans.

Finally, Mr. Chairman, I know that although the export negotiations for power sales are technically the responsibility of the Manitoba Energy Authority, I know that Members of this committee will be interested in progress on some of those negotiations, and staff of Manitoba Hydro will be prepared to provide an update in details on the ongoing negotiations.

Perhaps, I should point out, since I am speaking generally about policy areas, that there have been no policy changes at this point with respect to export sales.

At that point, I would like to turn over the floor to the Chief Executive Officer of Manitoba Hydro, Mr. Garry Beatty, and he and members of his staff will deal with management aspects and he will also introduce some of the other staff who are here.

* (1020)

Mr. Garry Beatty (President and Chief Executive Officer): Mr. Chairman, I am very pleased to present the corporation's 36th and 37th Annual Reports for the years ended March 31, 1987, and March 31, 1988. I will also make some comments on the outlook for the 1988-89 fiscal year. This occasion presents an opportunity for management not only to answer questions, but also to obtain the views of Legislature. We look forward to it.

I am accompanied by several members of our senior management team who will add to the presentation and take part in responding to any questions or comments the committee may have.

This management group includes Ralph Lambert, Senior Vice-President, Customer Service and Marketing, behind me in the middle; Murray Fraser, Senior Vice-President, Energy Supply, seated over here; Bob Brennan, Vice-President, Finance and Chief Financial Officer, Bob is right here.

We also have Don Kilgour, Vice-President, Engineering and Construction; Linda Jolson, Vice-President, Corporate Relations; John Funnell, General Counsel and Corporate Secretary.

We also have with us Will Tishinski, who is Vice-President of Operations; and Art Derry, who is Vice-President of Business Development; and Ken Adams, our Corporate Planning Officer.

I hope with this group we are able to cover, in as much detail as you wish, any part of the operations of the corporation.

In the year ended March 31, 1988, Manitoba Hydro delivered 16.3 billion kilowatt hours of energy to its Manitoba customers. The peak demand reached a new record level of 3,356 megawatts. After allowance for variations due to weather conditions, these levels represent solid and steady growth in the demand for electricity.

On the other hand, the last two years vividly illustrate the extremes of water conditions that can occur and the corporation's vulnerability to these conditions. In 1986-87, extremely favourable water conditions permitted Manitoba's hydraulic generating stations to produce a record 24 billion kWh. The drought which started in the winter of '86-87 reduced hydraulic production in 1987-88 by 25 percent from the year before to 18 billion kWh. That required us to turn to the coal-fired thermal stations at Selkirk and Brandon for additional energy.

Production levels in the '86-87 fiscal year resulted in extra-provincial revenues of \$113 million, the highest level ever, and the fifth consecutive year in excess of \$100 million. In 1987-88, export revenues fell by \$57 million, and the costs of thermal generation and related expenses increased by \$13 million.

As a result of this swing, due entirely to drought, the net income of \$13.4 million for the 1986-87 year reversed to a net loss of \$18.5 million for the year ended March 31, 1988. The corporation's reserves, which had reached \$137 million at the end of 1986-87 fiscal period, were reduced to just under \$119 million on March 31 last.

Severe drought conditions have persisted over most of the hydraulic system in the current fiscal year. Record low flows were established on the Winnipeg River this summer. Although recent precipitation has improved the outlook, especially in the Winnipeg River Basin, the net expense loss for the year ending March 31, 1989, could be as high as \$45 million, as opposed to the \$16 million net revenue forecasted at the beginning of the year.

Since our last appearance before this committee in April 1987, the Board of Manitoba Hydro approved a rate increase of 4.5 percent which came into effect on April 1, 1988. Manitoba Hydro continues to provide power to its customers at rates which are, for most categories, the lowest in North America.

* (1025)

Further comment on Manitoba Hydro's financial situation, in light of the current, severe and extended drought, is appropriate. First of all, current conditions dramatically underscore the need for the corporation to be financially prepared for the effects of periodic droughts. The corporation has estimated that if the worst conditions on record were repeated, the financial impact would be a net cost of about 180 million. Reserves of at least this order of magnitude would be desirable given our current system and customer base.

If the corporation's reserves were allowed to decline drastically, there would certainly be repercussions for the provincial credit rating.

Secondly, the corporation's flexibility to reduce day-to-day costs is limited. A large proportion of our annual costs are fixed. For example, finance expense and depreciation represented 56 percent of total expenses during 1987-88. Discretionary expenditures are carefully controlled at all times including years of favourable water conditions. Consequently, there is limited scope for reduction in years of low flows without immediately and seriously affecting the system.

Finally, although additional revenue could be earned through immediate increase in rates, the corporation recognizes that many of its customers are also suffering financially as a result of the dry weather. The imposition of a special rate increase at this time would be an additional burden.

Management is continuing to monitor this situation very closely.

Mr. Chairman, I would like to review some of the significant developments of the last year: 1988 is the fourth year of construction at Limestone and the project is running slightly ahead of schedule; civil work has continued this year and the project is beginning to move into the electrical and mechanical phase; the cost estimate for Limestone announced in February 1988, was \$1.67 billion; the cost estimate for the project has now dropped a further \$100 million to 1.57 billion.

A second major development was the completion of the 138 kilovolt transmission line to Churchill. This line was brought on stream in the last week of April 1987. The Churchill line is evidence of the corporation's continuing efforts to extend central station power to remote communities. The corporation, on behalf of the province, is currently discussing with the federal Government a cost-sharing arrangement for the construction of a line to supply power to the communities of Oxford House, Gods Lake Narrows, Gods River, Red Sucker Lake and the Island Lake communities of Garden Hill, Waasagomach and St. Theresa.

This proposal, known as the North Central Manitoba Project, would allow the residents of these remote communities to use the larger appliances which most Manitobans take for granted. In addition, it would allow the use of electric space heating to displace the use of other fuels brought into these communities at great expense.

Another important event, since we last met with the committee, was the completion of Manitoba Hydro's new PCB storage facility at our Waverley Street Service Centre. This structure was built to meet all applicable provincial and federal regulations and guidelines. It has been designed to assure safe and secure storage of these materials until an acceptable method of destruction is available. At the same time, the corporation is continuing its program established in 1984 of treating PCB-contaminated mineral oil in transformers to neutralize the PCBs.

In the first six months of 1988, the corporation successfully negotiated three-year collective agreements with the three unions that represent Manitoba Hydro employees. Contracts have been

signed with the International Brotherhood of Electrical Workers, Local 2034; the Canadian Union of Public Employees, Local 998; and the Association of Manitoba Hydro Staff and Supervisory Employees. The management of Manitoba Hydro takes industrial relations seriously and will take all steps to ensure fair administration of the collective agreements between the corporation and its employees.

The corporation is continuing its implementation of The Pay Equity Act. The first salary adjustments under the Act took effect September 29 last, with the balance to be effective in September 1989.

* (1030)

The final part of my presentation, Mr. Chairman, addresses the longer term outlook for Manitoba Hydro. Each year the company prepares a forecast of the energy and capacity requirements of Manitobans for the future. Our current forecast shows that Manitoba's consumption of electricity is expected to grow by an average of 2.3 percent annually over the next decade. The comparable figure for the last 10 years has been 3.1 percent. While the forecast does make some allowance for additional industrial loads, it does not reflect the potential for the addition of a major customer such as, for example, an aluminum smelter. The size of such a load requires that supply planning consider this possibility separately.

To meet the forecasted domestic load and committed export sales, and with due regard for the uncertainties associated with any prediction beyond a ten year period, it continues to be expected that new generating capacity will be required for 1999, as the Chairman has noted.

On meeting with the committee in April of 1987, we were at that time still using the 1986 load forecast and were therefore expecting a 1997 in-service date for new capacity. That estimate changed in July of '87.

Corporation management is examining the various options available to it to meet the expected load. In this regard, the corporation has commenced environmental studies for the Conawapa Generating Station, Bipole III Transmission Line and Wuskwatim Generating Station.

In view of the long lead times required for the construction of a new facility, a decision may have to be made in 1989 to choose the next station and perhaps begin preliminary construction activities.

The current drought has helped raise the profile, at least in this part of the world, of concerns in scientific circles that our climate may be getting warmer and drier, the so-called "greenhouse effect" to which the Chairman alluded. Manitoba Hydro has been following this debate for some time, since a change in climate could influence both the supply and demand side of our operations. At this point we are not making any fundamental changes to our plans for the future. However, we continue to watch developments in this area.

High Temperature Superconductivity is another subject of interest. Current expectations are that it will be at least 10 years before high temperature superconductivity has any commercial impact at all.

Another matter of interest is the possible health effect of electromagnetic fields. Considerable research is being conducted by the electrical industry in these areas. Manitoba Hydro is active in some of these research projects and monitors the results of all such studies.

Manitoba Hydro's management has given careful consideration to the implications of the proposed Free Trade Agreement portrayed in electricity.

In the opinion of management, the agreement is not likely to cause major problems for Manitoba Hydro in the foreseeable future.

Trade and electricity is already virtually barrier-free. Our past and current relationships with interconnected utilities have been of a cooperative and mutually beneficial nature. We expect that the only immediate effect of the agreement will be to positively reinforce trade between U.S. and Canadian utilities.

Our overall assessment is based on consideration of how specific aspects of the agreement might affect Manitoba Hydro. In making this assessment, we have considered work performed by staff, opinions rendered by our legal counsel, material from a wide range of sources and our past experience with export activities.

The provisions of the agreement, as they relate to energy generally and to electricity in particular, are somewhat ambiguous and therefore susceptible to a wide range of differing interpretations. The effects of the agreement will only become fully clear when decisions are rendered through the dispute settlement process. Nonetheless, I believe that the judgments reached by management are reasonable and reflect the most likely outcome.

The first is the extent to which the provisions of the agreement are likely to apply to Manitoba Hydro's activities. Our conclusion is that Manitoba Hydro will be treated as a commercial exporter under the agreement. Contracts negotiated with other utilities will continue to be the means whereby Manitoba Hydro's interests and those of its domestic customers are protected.

The second area is pricing. We looked at the question of whether Manitoba Hydro will be able to maintain differentials in price between Manitoba customers and U.S. customers and between other Canadian customers and U.S. customers. Our conclusion is that there is a long established distinction between the bases on which utilities set prices to customers within their "franchise area" or their service area, on the one hand, and to export customers on the other. It is expected that this distinction will continue for the foreseeable future in both Canada and the U.S. We are not aware of any opinion on the agreement, however negative, which has claimed that the agreement explicitly prohibits domestic prices from being lower than export prices.

With respect to prices charged to other Canadian utilities, the agreement will prevent price discrimination in favour of Canadian as compared to U.S. utilities. Both will be able to compete on an equal basis for any available power. From Manitoba Hydro's perspective, the objective of export sales is to maximize benefits

to Manitoba ratepayers, regardless of whether the buyer is Canadian or American, and so we see positive impacts from the agreement in this regard.

The third area considered was Manitoba Hydro's ability to protect the supply of electricity for Manitoba consumers. The proportionality provisions are probably the most unclear part of the agreement with respect to electricity. However, after considering the likelihood of various scenarios, our conclusion here is that the effects of the proportionality provisions should be minimal provided that where appropriate Manitoba Hydro's future export contracts are negotiated to contain guarantees that give domestic requirements priority over exports.

The fourth area considered was the effect of the agreement on Manitoba Hydro's vulnerability to action under U.S. trade law. Management has concluded that the effect would be, on balance, neutral. More attention may be focussed on the issue of Government subsidies but the laws affecting countervail and anti-dumping measures will be unaffected by the agreement. If Manitoba Hydro were to provide incentive rates to industrial customers, those customers would be at risk to U.S. countervail actions just as much—no more, no less—as they would be without the agreement.

In concluding my remarks on electricity exports and the Free Trade Agreement, I must point out that there is no doubt that some questions and uncertainties will remain. However, barring a dramatic change in Hydro's current trading environment, it is management's judgment that the effects of the Free Trade Agreement on Manitoba Hydro will be minimal.

Before concluding my part of our presentation to the committee, Mr. Chairman, I would like to take this opportunity to acknowledge the efforts of the men and women who work for your electrical utility. Almost without exception, they will go that extra mile to help achieve our mission. Most visible, perhaps, are the line crews who work around the clock to restore service after a windstorm, such as the one on June 24 of this year, but similar efforts are routinely put in by people in all parts of the organization. I am proud of the employees of Manitoba Hydro and I believe the company has a tradition of excellence.

Now, Mr. Chairman, with your permission, and the concurrence of the committee, I would like to turn over the corporation's presentation to Bob Brennan, Chief Financial Officer, who will present an overview of the financial circumstances of the utility. Thank you very much.

Mr. Bob Brennan (Vice-President Finance and Chief Financial Officer): This presentation, Mr. Chairman, involves some overhead projections in order to explain fully to the committee the situation. So if we could take a few minutes to set up here, I would appreciate it.

* (1040)

POINT OF ORDER

Mr. Jerry Storie (Flin Flon): Mr. Chairman, on a point of order. I believe that in committees such as this in the past we have avoided using props and displays. If it is going to take up time of the committee there are many questions, I am sure, that members of the committee have to ask, and perhaps it would be easier, I am sure that we can receive the pictures later. Perhaps we could have an overview of the financial circumstances and avoid using up too much time of the committee.

Mr. Garry Beatty (President and Chief Executive Officer): We could offer the presentation, I suppose, without the overheads, Mr. Chairman. Is that possible, Bob? We could distribute copies of the presentation and people could follow it on that basis. I think that would be simpler and faster.

Mr. Chairman: Mr. Taylor, on the point of order?

Mr. Harold Taylor (Wolseley): Yes, I have some concerns about not having a presentation, Mr. Chairman, and I do not agree with the objection raised. Potentially, if the handouts were available for each Member of the committee to follow the overhead presentation, but something has to be said for a proper, professional presentation of materials through overhead slides as an aid, and I, for one, would speak in favour of having the procedure done in the way it is proposed.

Mr. Chairman: On the point of order, Mr. Orchard?

Hon. Donald Orchard (Minister of Health): Yes, Mr. Chairman. I think the one key question that has not been answered is, how long will it take? Because we may take more time on points of orders than it would take for the presentation. I would urge, set up, and get on with the presentation.

Mr. Chairman: Do you want information, Mr. Doer?

Mr. Storie: I had assumed that the presentation would be available in written form as well. Is it not available? Then the visuals will be in the presentation. I presume that the graphs and charts that you are going to be exhibiting on the overhead would be part of the presentation that we receive in print.

Mr. Chairman: Is it the will of the committee we go ahead with the presentation? Mr. Doer, on a point of order.

Mr. Gary Doer (Leader of the Second Opposition): Mr. Chairman, the financial information is in the Annual Report. Many of the comments are contained within the document tabled by the CEO. We have many questions to raise with the Minister responsible, who has not yet made a statement to this committee. I mean, this is not an in-service; this is to review the workings of Manitoba Hydro and the major policy issues that are confronting Manitobans with the Minister present, and I certainly would hope that the administration of the corporation are well reviewed by this committee.

Certainly the major policy issues that the Minister is responsible for, that we have not yet heard in this committee, I think should be front and foremost in terms of our review of the workings of this corporation and the many policy decisions that flow, including environmental issues that are contained within the policy, questions raised by the Chair of the Energy Authority.

Mr. Chairman: I would like to thank all Honourable Members for their input. I believe it is the will of the committee that we go ahead with the presentation.

Those in favour of going ahead with the presentation? Opposed, if any? We will go ahead with the presentation.

I call the committee back to order. Mr. Brennan, proceed with your presentation.

Mr. Bob Brennan (Vice-President Finance and Chief Financial Officer): Thank you, Mr. Chairman. I would like to review Manitoba Hydro's 1986-87 and 1987-88 financial performance and give you an overview of the corporation's financial future, the major sensitivities facing the corporation and the assumptions and outcome of the last forecast presented to the Manitoba Hydro Board last fall.

1986-87 Financial Results:

As indicated in the 36th Annual Report, net income for the 1986-87 fiscal year amounted to \$13.4 million. This was the third consecutive year in which revenues exceeded expenses. As a result, total reserves increased to \$137.3 million, still significantly below the current target minimum level of \$180-200 million that management considers necessary for financial protection against low water conditions. Barring unforeseen circumstances, the corporation is committed to achieving minimum targeted reserve levels and absorbing the impact of new facilities through rate increases that are closely aligned with the rate of inflation.

Revenues increased \$17.1 million, or 3.1 percent, to \$569.7 million, primarily due to the 2.8 percent rate increase implemented April 1, 1986, and to very favourable water conditions. Expenses increased by \$33.9 million, or 6.5 percent, to \$556.3 million. Increased water rental charges were the largest single area of increases as a result of that 3.6 percent increase in hydraulic generation and the increase in rates from \$4.75 to \$11.75 per horsepower year.

The exceptionally mild winter experienced in 1986-87 limited the growth in electricity sales within the province to 2.5 percent over the previous year. Excellent water conditions resulted in a record 24.1 billion kWh of electricity being generated from the integrated Manitoba system. Hydraulic generating stations produced 99.1 percent of this total. The balance was provided by thermal generation and imports. The increase in generation, coupled with the moderate growth in domestic demand, resulted in record extraprovincial sales of \$113.5 million.

1987-88 financial results:

During the 1987-88 year the drought which we are still experiencing began to have adverse effects upon

Manitoba Hydro. Expenses for this year exceeded revenues by \$18.5 million, as compared to the net income of \$13.4 million in the previous year. As a result of the reduced water flows, total hydraulic generation from the integrated system declined to 18 billion kilowatt hours from the record high in 1986-87. Despite the decline in reserve levels to \$118.8 million, Manitoba Hydro remains committed to keeping rate increases closely aligned with the rate of inflation in the long term. Should the current drought conditions continue, the corporation's short-term position will be reviewed.

Revenues in 1987-88 increased by only 1.9 percent to \$580.3 million. The increase reflects the 5 percent growth in energy requirements for Manitoba customers, the 5 percent general rate increase and the 4.7 percent Energy Rate Stabilization Act related-rate increase. The decline in extraprovincial sales almost totally offset these increases in revenue. Expenses increased by 7.7 percent to \$598.8 million primarily due to the increased power purchases and thermal fuel costs related to the drought and the additional finance expense resulting from The Energy Rate Stabilization Act amendment.

The financial impact of the poor water conditions experienced in 1987-88, are continuing into 1988-89 and will be discussed following an overview of the financial forecast.

Forecast Assumptions:

Before proceeding to the forecast itself, I will spend some time going over the main assumptions included in the forecast.

In the short term, water conditions have the greatest financial impact on forecasted operations. Forecasts for hydraulic generation consider the current reservoir levels and then assume normal weather conditions for the balance of the forecast. Normal conditions would include median precipitation levels to freeze-up. Precipitation after freeze-up will not benefit the current year.

* (1050)

The most significant variable affecting our long-range financial forecast is the financial impact of the timing of new capital facilities required for our system. The System Load Forecast is the basis upon which a new plant is added. In addition, projected interest and escalation rates can have a large effect on our forecasts.

Water conditions:

As stated earlier, the variable that has the greatest impact on net revenues in the short term is water conditions. The extent is displayed through a calculation of net interchange revenue. Net interchange revenue is the total extraprovincial revenue less related water rentals, thermal costs and purchased imports. The magnitude of the variance between high and low flow conditions is currently in the \$100 million range. This grows significantly with the addition of a new plant, as well as an increase in the Manitoba load, to about \$300 million by the mid-1990s.

Of equal significance is the differing impacts of water conditions. Low water flow conditions, which is a

downside risk, have a much larger effect than the potential increase in revenue, which is the upside benefit of high water flows. This is due to the fact that in high flow years, not all energy can be sold as a result of transmission constraints and lower unit prices resulting from market/supply conditions depressing prices. In low flow years, additional costs may be required to purchase high cost energy or to use thermal generation to meet firm requirements. The financial impact of the variation between average flows and low flows demonstrates the need for adequate financial reserves.

System Capability:

Manitoba Hydro has been built to ensure adequate power is available to Manitobans even under the lowest dependable water flows. In the case of drought, the corporation will purchase energy from neighbouring utilities and utilize more costly thermal generation. In addition, energy may also be purchased for resale to take advantage of reservoir management opportunities. When water flows are average or better, it is possible to generate and sell electricity excess to the needs of Manitoban consumers. This provides an important source of revenue which helps to minimize rates for Manitoba consumers.

With the combined capabilities of the hydraulic and thermal generating stations and available imports, firm load can be met even at minimum flows. The estimated load for 1988-89 amounts to 17,562 gWh compared to the low flow capability of 16,906 gWh, thermal capability of 1,864 gWh and 1,763 gWh of interconnection import contracts which total 20,533 gWh.

Projected extraprovincial revenue is based on the assumption that precipitation will return to normal after April 1, 1988 with median inflows to all reservoirs and reservoirs regulated to maximize export revenues. In reality, this has not occurred and the province remains in a drought situation, underscoring the importance of water conditions to our financial performance.

Schedule of System Growth:

The System Load Forecast which projects annual growth in firm peak and energy consumption serves as the basis for projecting revenue from the Manitoba firm load and determining when new generation and transmission is required to meet this load. The average annual rate of growth in firm energy usage for the next 10 years is 2.8 percent, based on this forecast. Mr. Beatty pointed out earlier that we have a current updated forecast which is somewhat lower. The forecast average for peak demand growth is 3 percent. In 1987-88 a firm energy growth rate of 5.7 percent was projected, reflecting a recovery from the abnormally temperate winter of 1986-87. Peak demand growth for the year was forecast to be 4.9 percent. In fact, in 1987-88 a 4.9 percent increase in firm energy demand occurred while demand grew 11.5 percent to a new all time peak of 3,356 mW.

Major Capital Additions:

Based on the System Load Forecast and firm sale commitments, requirement for additional generation after Limestone is scheduled for 1999. This forecast

is based on the assumption that the next source of generation will be Conawapa. Under some scenarios, development of the Wuskwatim site is the preferred choice. These options are under review so that the most cost effective alternative will be selected.

In addition to new generation, other major capital projects are required to keep pace with the growing demand.

Interest and escalation rates:

Another assumption in the preparation of the integrated financial forecast is the projection of interest and escalation rates. The assumption used for future interest in escalation rates is 10 percent for interest and 5 percent for escalation. Interest rates affect their operating cost and, more significantly, the cost of constructing new facilities. Projected interest rates are applied to new borrowing requirements, capitalization of interests on construction projects, and for projecting interest earned on new sinking fund investments.

The condition of the export market is also of significance since interruptible sales rates are market driven. In some years, Manitoba Hydro's export sales revenue can be expected to represent up to 25 percent of total revenue.

Capital Forecast:

Manitoba Hydro is forecasting increasing capital expenditures during the next 10 years. To make appropriate comparisons of these expenditures with historical capital spending, it is necessary to use constant dollars to remove the effects of inflation. It should be noted that in constant dollars the maximum spending occurring in 1997-98 is approximately equal to expenditures related to the construction of the Long Spruce Generating Station, the Lake Winnipeg Regulation structure including Jenpeg, and the Churchill River Diversion that occurred in the mid and late Seventies.

The expenditures relating to Limestone construction peak in 1988-89 will remain substantial until 1991-92 at which time Conawapa construction is projected to begin. The peak occurring in the later years reflects the cost of construction of Conawapa and Bipole III transmission.

Graph of Revenues:

Projected revenue by a major power group depicts:

- (a) The growth of 2.8 percent in domestic growth from general consumers at approved rates.
- (b) The large increase in extraprovincial revenue in 1993-94 reflects the NSP sale and the additional generating capacity with the addition of Limestone coming into service or totally being a new service.

In 1990-91 extraprovincial sales represent 12 percent of total revenue whereas in 1993-94 they make up 24 percent of total revenue.

Operating expenses:

An overview of operating expenses indicates:

- (a) Interest expense increases in 1991-92, 1992-

93, and the higher levels thereafter reflect the addition of the carrying costs of Limestone.

- (b) Depreciation expense increases for the same reason.
- (c) Wages and Salaries/Other Operating reflect divisional submissions and corporate escalation applied to future years.
- (c) Water rentals increase once the Limestone comes into service.
- (d) Fuel and power purchased decreases after Limestone is in service and then gradually increases after 1993-94, as the Manitoba load increases.

Projection of net revenue under varying general consumer rate increases:

Under normal water conditions and assuming annual future rate increases equal to inflation, net revenue can be expected to grow at a slow rate, reaching the \$50 million range for the '90-91 fiscal year. The decline in net revenue after this is related to the additional cost that must be absorbed when Limestone Generating Station comes into service. Current projections indicate that with rate increases closely aligned with inflation, the additional cost can be absorbed without depleting reserves. This represents no change to the information provided to this committee in '87.

Net revenue after '92-93, reflects the impact of the 500 megawatt sale to NSP and no new major capital additions being placed in service.

* (1100)

It is evident that rate increases are 2 percent or 3 percent less than the projected rate of inflation, are unlikely to be adequate to increase our reserve levels or observe the cost of new capital facilities when they are placed in service. Actual rate increases will be approved by the board, annually based on prevailing financial conditions.

Total Reserves/Target Reserves:

The total projected reserves and target reserves: Minimum reserve levels are calculated as the reserve level necessary to withstand two consecutive years of drought conditions, each equivalent to the worst year on record. This produces approximately the same financial result as a repetition of the 1937-41 drought. This calculation compares net interchange revenues under a medium versus low flow conditions after taking into account firm load and available generating capacity. The minimum reserve target will vary from year to year reflecting the opportunity cost of foregone export sales and/or increased thermal and import costs to meet the firm load.

With the assumption of 5 percent annual general consumer rate increases after '88-89, the minimum target reserve level shown as boxes on the bottom of the graph is attained in the '91-92 fiscal year. The three lines shown on the graph are based on varying rate increases and provide a comparison reserve levels to the minimum target level.

Operating and Financial Statistics:

I would like to summarize the results of the integrated financial forecast or financial forecast for you. I should caution that the forecast is based on various assumptions made in the fall of 1987, most notable of which is the return to medium flows starting in 1988-89. This, of course, has not occurred.

Total revenue, including 5 percent rate increases or rate increases equal to the projected rate of inflation, beyond 1988-89 grows substantially from \$570 million to \$1.091 billion by '94-95, more than double. Net revenue in '94-95 reflects the 500-megawatt NSP sale and the absorption of Limestone costs into the rate base. Extraprovincial sales remain relatively constant until Limestone is completed. With the commencement of the NSP sale in '93-94, a significant increase in total revenue can be seen.

Capital expenditures remain relatively constant throughout the period at \$300 million to \$450 million, until the later years of the forecast. Total assets show a significant increase mostly attributable to expenditures for the completion of Limestone. Total reserves grow slowly until later years. The corporation will continue to be at risk for several years until reserves improve substantially.

Operating and Financial Statistics:

The slow growth in Reserves is also portrayed in the improvement in the debt/equity ratio. The percentage of interest and operating expense to revenue declines over the period to '94-95. However, the interest percentage grows in the intervening years until the rate base absorbs the additional interest expense associated with Limestone Generating Station completion.

A steady growth in the number of customers served is expected.

The energy generated reflects the drought conditions currently being experienced with a substantial drop in generation amounting to approximately 20 percent of the '86-87 generation.

Impact of Current Drought Conditions:

To conclude, I would like to discuss the financial impact of a continuation of the current drought conditions on Manitoba Hydro. The transparency indicates the financial forecast approved by the board of Manitoba Hydro in the fall of 1987, as well as a worst-case drought scenario prepared early in September. We are currently in the process of revising the financial forecast for approval by the board in November or December of this year.

Because of the lack of precipitation over the past year, hydraulic generation is down by 30 percent from that forecasted last November. Consequently, export revenue is down sharply and fuel and power purchases are expected to exceed the forecast by over six times the amount originally forecast. It is important to note that the November forecast was already based on below average reservoir levels resulting from low water flows in '87-88—that is, the calendar 1987. The full impact of the drought when measured against a year of normal flows would be even greater than that shown against last fall's forecast.

The cost of continuing drought conditions to Manitoba Hydro is estimated to be close to \$100 million if these dry conditions persist until freeze up. Fortunately, improvements in the Canadian/U.S. exchange rate and favourable interest rates over that forecasted are expected to reduce finance charges by about \$20 million this year.

The benefit of the hot dry summer is the increase in electrical consumption in the province which will improve revenues. In addition, revenue from Winnipeg Hydro through the cost-sharing agreement will improve substantially as Winnipeg Hydro will pay its share of the increased energy costs.

Overall, current estimates indicate an operating loss of up to \$45 million under this worst-case scenario, instead of the \$16 million net revenue forecast last fall. A loss of this magnitude will reduce reserves to about \$75 million, approximating their lowest level in over 10 years.

The effects of the current drought clearly demonstrate the need for adequate financial reserves and the degree to which a drought can deplete them.

Thank you, Mr. Chairman.

Mr. Chairman: I would appreciate some guidance from the committee. Will we consider the report page by page or otherwise? We have two reports to consider. The 36th Annual Report for the year ended March 31, 1987—again, are we going through the report in its entirety?

Mr. Doer: Mr. Chairman, if I might respond in general to the general statements made today before the committee, I believe we can go through the reports. It is not required to pass them today. The committee is allowed to pass them as we proceed. Indeed, there have been precedents in the past where committee reports have not been passed, but I would not expect that would be the case. But I think there has been some general policy issues raised by the Chair of MEA. There are some general policy issues raised by the management of Hydro in dealing with the future of this corporation. I think it is appropriate that we have the opportunity: a) to respond, and b) to ask questions on those papers that have been presented to us and the verbal reports that have been presented here this morning.

Mr. Chairman: In terms of organization then, we do have two reports. If we can address the 36th report for the year ended March 31, 1987.

Mr. Storie: Perhaps I could be of some help here. It is not customary to go through these page by page. Usually when the committee has completed its review, both of the policy issues and the detail to the extent that there are questions on the detail, at the end of the committee we say, report is passed. That is normally the procedure, not a page by page. It allows for a greater degree of flexibility in answering questions and asking questions. The work of the committee takes a certain amount of time, regardless of how we proceed. There are questions that need to be asked and there

are Members who want to ask questions. I suggest we just proceed and let the committee questions unfold as they will.

* (1110)

Mr. Orchard: Mr. Chairman, possibly Members of the committee might have questions on the 36th Annual Report, and it would be appropriate to address those questions in order, and then deal with the 37th Annual Report thereafter.

Mr. Chairman: Is it the will of the committee then to address this 36th Annual Report and then the 37th Annual Report?

Mr. Doer: Many of the issues raised this morning deal with not only the contents of the report but in terms of the long-term future of the Hydro Corporation and its effect on Manitobans. The policy change to move from the Conawapa project on more of the front burner to the side burner, at least the policy decision to proceed with thermal plants, the policy decisions to look at Wuskwatim, those issues have been presented to this committee and I think should be dealt with by this committee. They do not fit into the pigeonholes necessarily of committee reports.

It has been the tradition of committees reviewing Crown corporations that the last matter of business is to pass the reports, but to deal with the major policy issues, the major operational issues, the major issues of detail rather than proceed in this traditional way of dealing with Estimates. It has been the practice, I think, through many administrations that we deal with the very many policy issues that face us as Manitobans and that we do not go through a linear exercise that does not deal with the future which is, in essence, one of the major responsibilities we, as legislators, have in this committee.

Mr. Herold Driedger (Niakwa): Not having any record to defend here, I think perhaps comments with respect to these reports might be in order. My aim, of course, is to find out more about the operations of Hydro, its policies for the future, some of its alternatives as to how it wishes to address the needs of Manitobans. I would be interested in taking a look at both reports, yes, but not necessarily on a line-by-line basis. I would like to be a little bit more free-ranging in my questions.

Mr. Chairman: If it is the will of the committee, we will proceed then.

Mr. Doer: I would like to make a few comments before asking some questions, Mr. Chairman.

Given the major policy issues that are arising from the report we received this morning, I was somewhat surprised the Minister did not make a statement to this committee. I know that when dealing just with the operations of Hydro, it is not traditional that the Minister make a statement, but when we look at some of the very major policy issues that are confronting Manitobans, certainly it is the Minister who represents Manitobans around the Cabinet table and certainly

many of the issues we will be raising this morning. We will want to know the Minister's opinions on them, because, as I say, he is our and Manitobans' representative at the Cabinet table and indeed before this committee today.

I think we all agree that Manitoba Hydro is one of our greatest resources. It has excellent staff working throughout this province on behalf of Manitobans. It has been one of the advantages as a Crown corporation to all our citizens. Alberta may have its oil and gas and Ontario may have the advantage of various Government decisions continuously, and Quebec, but Manitoba has its hydro resource and it is a very, very important one as we look at the future of our province.

We are certainly pleased that Limestone continues to come in under budget—another \$100 million reduced in terms of its actual costs confirmed this morning. I missed in the financial presentation the revenue to cost benefit of the Limestone project by the Hydro officials. I am sure that we will get that as we move along. The coal prices have changed but we still have modelled it out to about a 2:1 ratio of revenue to cost, but we look forward to Hydro management's continued assessment on that.

We believe that Hydro should be developed prudently, in consultation with Manitobans, but we also believe that it requires strong leadership to have as its full benefits to all Manitobans in terms of its development.

We read the free trade portion provided by the CEO. I think one of the greatest condemnations that we have heard officially from the Government's position so far is this trade agreement is ambiguous. Surely to God, ambiguity in the area of hydro development, notwithstanding the words that were placed in that opinion presented to us this morning—we knew the words would not contradict the Premier (Mr. Filmon)—but certainly the ambiguity leads us to still be very concerned about the Free Trade Agreement. I believe that the ambiguity in the agreement, plus its reliance on any dispute settlement mechanism in the future, is not very much comfort for Manitobans dealing with this agreement.

The assumption made by the corporation, I would like to see legal opinions on the assumption made by the corporation that this entity, this Crown corporation that reports to a Minister of Government and Cabinet of Government, will be treated as a commercial exporter and not indeed as a publicly run Crown corporation with authority flowing to the Cabinet for sales, etc. I would like to see that legal opinion, Mr. Chairman.

We will not spend all our time on the Free Trade Agreement. We obviously have a fundamental disagreement with the Government on the Free Trade Agreement and we will be pursuing it in this committee, but there are lots of other areas in the Annual Report we want to review.

Certainly, we know that the proportional clause, as stated in the free trade assessment, any contract is superseded by indeed the Free Trade Agreement and the Free Trade Agreement even supersedes, under Bill C-130, Acts of Parliament. So the strength of contracts

Tuesday, October 11, 1988

versus the Free Trade Agreement is another area that we think is very, very important. The fact that we cannot have incentive rates to industrial customers in Manitoba is again something we have been consistently saying under this Free Trade Agreement.

We are very, very concerned, Mr. Chairman, that the Conawapa development is on a much slower track than it was previously. The negotiating sales agreements are on a much slower track than they were previously.

We are very concerned that Wuskwatim has been put much higher up on the priority list for Manitoba Hydro. We have heard rumours to that effect that Wuskwatim is being presented to the Manitoba Cabinet. There are major environmental problems with the flooding of the Burntwood River, Mr. Chairman. I cannot believe that on the one hand we would have the tremendous development potential on the Nelson River, free of the type of environmental problems that we would have with the Wuskwatim development proceeding.

I would also raise serious questions again on the acceleration of the thermal plants. Again this is a rumour we have been hearing, that the thermal plants are now being reviewed for purposes of upgrading, and the capacity of those thermal plants as opposed to hydro-electric. It is rather ironic that we talk about the effects of the greenhouse on the one hand in terms of this province, and on the other hand we are clearly moving with an option and an alternative that will in fact increase by all studies the vulnerability our planet has to the greenhouse effect. We are very interested to hear the Government's reason for putting these proposals much higher than hydro-electric proposals in the development of our hydro-electric resource.

We are very concerned on the very slow track that the Government is proceeding with the aluminum smelter. I know that this ties in with the CEO's report on producing higher capacity of energy and we look forward to asking questions on those very, very important issues. We are pleased the Government is going to proceed to the PUB for rate increases. It may be even ironic that the Limestone development may be fortuitous if we have future droughts in this province in terms of increased provision of hydro-electric power. I would like to certainly look at that in the future as well, but we look forward to raising a number of questions.

I would like to start, Mr. Chairman, with a question to the Minister. The role of the Chairperson of the Energy Authority is as I understand it a part-time job. Is that correct?

Mr. Neufeld: The role of the Chairman of the Manitoba Hydro-Electric Board is presently a part-time job but he will devote the time to it that is required.

Mr. Doer: Would the numbers of hours or days of the week averaged over the last five months be about two-and-a-half days per week as the Chair of the MEA?

Mr. Neufeld: I have no statistics on the number of hours that the Chairman has worked. I would guess

that it is more than two-and-a-half days a week. If you take the number of hours in a week and divide that by seven hours, it would be more than two-and-a-half days a week. It would be more like six days a week.

Mr. Doer: Does the Chair of the Manitoba Energy Authority ever meet directly with the Premier (Mr. Filmon) without the Minister (Mr. Neufeld) present?

Mr. Neufeld: If he met with the Premier without the Minister present the Minister would not know, would he? I do not know. Not to my knowledge.

* (1120)

Mr. Doer: The Chair of MEA is, as I say, a part-time job. Is there any measures in place consistent with other civil servants dealing with the other areas of responsibility that the individual has on a private basis in terms of disclosure?

Mr. Neufeld: I am not quite sure I understand the question, Mr. Chairman. Is Mr. Doer asking whether or not his responsibilities are the same as another civil servant?

Mr. Doer: My question deals with the policy issue of having a part-time person who is also in a commercial job as the other part of their private life, which I respect. Is there a system in place to ensure that—and I am not talking about the individual, I am talking about the system—the same system as there would be with a Deputy Minister or other members of the public service where a full disclosure of a commercial activity is a responsibility, public disclosure of responsibilities dealing with the two jobs?

Mr. Neufeld: The Chairman has not been asked to disclose his personal involvements in other businesses, no. The Chairman gives the time and the effort to the Manitoba Hydro-Electric Board and to the Manitoba Hydro that he deems necessary and that has not been in conflict with what the Government expects.

Mr. Doer: Just in terms of a policy decision, again not dealing with the individual, does the Minister not think it would be in the Chair's best interest to have a system in place so that policy issue is fully developed so that there is no perceived problem in the future dealing with two private responsibilities and public responsibilities with the highly financial nature of the corporation, just the system, not dealing with the individual?

Mr. Neufeld: That is something that I am quite prepared to take under advisement. I will discuss that with the Chairman to see whether or not we can come up with a policy that would be acceptable to the Government.

Mr. Doer: Does the Minister have any cost-benefit studies given the strong comments of Manitoba Hydro? There is the environmental aspects and there is the cost-benefit aspects of the thermal production and the strong desire of the Government to put that much further on the front burner in terms of its supply of electric capacity to Manitoba. Does he have a cost-

benefit study that he has taken to Cabinet on this proposal? Can he table that with us in this committee this morning?

Mr. Neufeld: The generation from thermal plants is not expected to take the place of hydro-electric generation. It is expected to supplement. It has been supplementing over the years and it will continue to supplement. The question before Government in a board is simply will it be more cost-effective to upgrade the thermal plants as opposed to the extremely expensive cost of a new generation station like Conawapa.

Mr. Doer: Does the Minister have that cost-benefit study and does he not think that in terms of the policy issue of the greenhouse effect that he is potentially talking out of both sides of our policy mouths, one on the greenhouse effect and its potential positive or negative impact on Manitoba? Generally, I think we can all conclude that it will have net negative effect on Manitobans and indeed the world. And on the other hand moving this development further along and increasing it as a supplement rather than replacing it with hydro-electric power, does he not think that he is totally inconsistent with these two policy issues?

Mr. Neufeld: The greenhouse effect is being studied. As far as the cost of new generation is concerned, I do not think we are being inconsistent. In order to bring Conawapa, if you want to use Conawapa as an example on to line, it will require a large number of dollars to be spent. The electricity produced will not be immediately sold. We have an extremely costly cost to Manitoba users or to the Government of Manitoba. So we have to consider whether or not thermal generation is less costly than building a new plant.

Mr. Doer: Has the Minister and the Cabinet considered the increased emissions, the SO₂ emissions from thermal plants and its effect on our environment? Can he table that in this committee?

Mr. Neufeld: That is a study that Manitoba Hydro is undertaking. When that is completed, it shall be tabled.

Mr. Doer: Has the Minister taken the option of upgrading thermal plants to Cabinet without the study being completed?

Mr. Neufeld: The option has not been taken to Cabinet. It is a consideration; it is an alternative. Right now we are discussing only the alternatives. We are not discussing any major commitments.

Mr. Herold Driedger: I would like to change the thrust of these questions just slightly. I, again, do not have any particular record to defend here. I am more interested in finding out things about hydro.

Specifically, what I would like to do is, we have just found out that Conawapa is predicted to be on line in '99, or to be needed by '99. When exactly is the domestic need for Limestone going to come on stream?

Mr. Beatty: First power in 1990. That is when it is required—first power in 1990. We are bringing two units on in 1990. That is when it is required.

Mr. Herold Driedger: If the requirement is in 1990, the load growth requirements that had been projected in the past I believe, the first requirement for domestic need was not going to be until 1995 because the growth was not as fast as they had been anticipated.

Mr. Beatty: I am not sure that I understand the question.

Our load growth forecast has not changed a great deal. It is very much the same as it was the year before. We see it as requiring additional generation whether that be the large plant, Conawapa, or a small plant and the leading contender for the small plant is Wuskwatim. Those two plants have close economics in 1990. It would take a substantial jump in our load forecast or an appearance of a very large new customer to accelerate that at the moment. I indicated earlier, I think in my presentation, that something as large as, say, an aluminum smelter would have the effect of moving up. That aluminum smelter could take 300 to 400 megawatts, would have the effect of moving that requirement up to '97. There is a question now, of course, we have some concerns about whether we could actually deliver Conawapa in '97.

Mr. Herold Driedger: So what you are saying is that basically the requirements for more plants, future on-line plants is essentially large energy users. Like, for instance, you are talking about the advanced—if you get an aluminum smelter coming in then you are going to have to advance a plant because you are not going to be able to deliver that—

Mr. Beatty: An aluminum smelter decision would do two things. It would advance our requirement for new generation to '97 and it would dictate the large plant, as opposed to Wuskwatim. It would dictate Conawapa.

* (1130)

Mr. Herold Driedger: So what you are actually saying then is that you can deliver if it was not for the fact that if you were to bring an aluminum smelter in or you were to be able to get one in here with a large energy user, then the domestic requirements, the domestic load growth would require Conawapa to be brought on. But actually you cannot deliver the required power or energy that would be needed then through Limestone alone? The thing is what we have seen here in the past is Limestone is actually advanced for export sales. It was not really advanced for needs for Manitobans. Now we are talking about aluminum smelters again which might advance Conawapa. I am just trying to find out where exactly the planning of Hydro is. We do not know the total costs that will have to be borne by the Manitoba ratepayer with respect to taking some of these investment risks, as it were.

We have seen also in the Annual Reports of the past number of years, even though you did have some fairly significant droughts in the past, that drought was not considered to be a problem with respect to the need to maintain financial reserves. In the last two Annual Reports, or actually the last three, if I remember correctly, I think the '85 drought was mentioned for the first time as being a significant factor in requiring

financial reserves to withstand two years of significant drought.

It seems to me that the reason for the financial reserves are taken as indicated in the reports, which is to help the corporation withstand the problem of not being able to generate sufficient electricity, of having to either purchase or buy more expensive alternatives. It seems to me that in the late Seventies when the reserves were maintained strictly as a straight flat rate, flat percentage, which either were met or not, depending upon the actual status, and that kind of philosophy-reserve base was actually zero. You would build them up and you would use them, actually the average condition would be zero.

Now we are looking at driving reserves up to half a billion, I believe, according to the graph we saw there, about '94-95, where you want half-a-billion reserve base. Now, does that reserve now indicate that it is going to be used to support rate fluctuations caused, or to even out rate fluctuation rather than withstand drought, or is that reserve to be utilized for either bringing another plant on stream sooner? Is it to be utilized as part of your capitalization?

Mr. Beatty: The purpose of reserves, I think, has always been to cope with risks facing corporations. The first, and the most noticeable, the most important of which facing a hydraulic utility is drought. But, clearly, when you add a plant you have to absorb costs and there is no question about that.

In the case of Limestone, our expectation has been to provide sufficiently for drought would also create a reserve level that sufficiently dealt with the absorption of Limestone. As we go into a new additional generation, we will have to provide for that. What we are giving you in this—what Mr. Brennan covered in his presentation was really the integrated financial forecast for the next 10 years, which is the key strategic planning document in Manitoba Hydro. He is giving you the elements of that, and that forecast contains, or that strategic document, makes a number of assumptions, rate increases at or about the rate of inflation, and a number of other assumptions about our costs and revenues.

That produces excess revenue and a reserve that as it extends out increases considerably, but actual reserves will be determined by rate increases which are approved by the board and subsequently approved by the Government on a year-to-year basis. So what we are doing here is giving you a forecast based on certain fixed assumptions. It is not likely that the reserve level would be allowed to grow beyond the assessment, the estimated realistic cost of the risks. I do not think the board would approve rate increases beyond that, but there are a number of risks and they occur in combination and we cannot be sure when they will occur.

Mr. Herold Driedger: To understand the reserves and to understand this, the Public Utilities Board recommended a reserve level of approximately \$200 million in the last round of rate increases, and according to the financial analysis that you have referenced right

now, you say that probably that target number of half-a-billion or \$500 million will probably not be approved within the rate structure.

Something else that was referenced by the Chairman earlier in his first remarks, that the long-term plans I believe of Hydro itself, besides proposed rate increases, will be submitted to the Public Utilities Board. Is this going to actually also be retroactive to looking at the costs of Limestone as they were presented to Manitobans, so that we can actually determine the precise role that Limestone played in actually determining Hydro strategy or Hydro long-term plans, not the other way around. You notice I put that that way.

Mr. Beatty: The role of the Public Utilities Board is a prerogative of the Government. The present system of appearing before the Utilities Board has to do with appeal and that is the present system until it is changed. But we are, speaking for Hydro management, we are prepared to—I do not think any meaningful discussion of rates can occur at an issue-ventilation exercise such as the Public Utilities Board without looking at our capital program. That can be past, present or future. I think the preoccupation of people will be with the future, but we are prepared to discuss the capital program at any point in time, past, present or future. I am not sure that I am answering the nub of your question.

Mr. Ransom: Just to clarify that, Mr. Chairman, it is the recommendation that we have put forward to the Government that this be done. We say, as Manitoba Hydro, we stand ready and willing to go before the Public Utilities Board and talk about the long-term plans and the rate increases that flow therefrom. It will be up to the Government to decide whether they will accept that recommendation and, if they do, precisely how it will be implemented before the Public Utilities Board.

Mr. Herold Driedger: I would like to take a look at some of the details within some of the Annual Reports. I am sure that there is a rational explanation for what appears to me—and, as an unschooled accountant, I do not have the accounting degrees for these apparent discrepancies in reports '86, '87, '88, although there is no evidence of it in the '87-88 line, and that is in the Operating and Administrative Cost line.

In the 1986 Annual Report, which I know is not part of this but because it causes me to question the numbers in '87-88, the amount indicated for Operating and Administrative expenses was \$17 million less than it was restated in the 1987 report when the line was backdated. I noticed that when I went back and did a little bit more looking and I found that you actually had about 10 years where that number has changed. It has been rewritten into the Annual Report and I was wondering why that is. I will not speculate as to a reason, but there has to be a rational reason.

* (1140)

Mr. Brennan: I believe that was the year we took water rentals out of operating admin. and made it a separate

item. I believe the amount is \$17.85 million. If that is the amount, that is what happened.

Mr. Herold Driedger: So it is just the inclusion of the water rentals, and you then actually pushed that number and went all the way back to 1979 then?

Mr. Brennan: Yes. Water rentals were a significant enough item at that point that we made it separate item. I believe that is the answer but we will check.

Mr. Herold Driedger: Could you confirm that for us please.

Mr. Brennan: Yes, of course.

Mr. Herold Driedger: Something else I would just like to take a look at, in going through this exercise to get ready for this committee, I did some comparison with other utilities.

Could you tell me if in your employee count that you have every year, do you factor in the number of employees who are actually involved, say, in the capital projects or is that just a baseline employee requirement?

Mr. Brennan: It is the peak number of employees that are paid by Manitoba Hydro. Any contractors' employees or anybody on contract to other people with a contract back to Manitoba Hydro are not included.

Mr. Herold Driedger: So the people working not directly for Hydro on Limestone would not be included in the—

Mr. Brennan: Not in the numbers of employees.

Mr. Herold Driedger: Then could I have a breakdown as to, just for my own information, where most of your employees are used then? I know that, in one of your Annual Reports we talked about a management restructure and tried to make the corporation more efficient. Where are most of the employees needed? If I compare Manitoba Hydro which is a public utility to the only utility in Canada that equates to it that is in the private sector which is Transalta, your total asset base—mind you, the asset base is something else that I wish to ask questions on, as to how you determine your asset base because it has a great deal to do with the function of depreciation.

But the employees—now I was not able to do a historical count for Transalta, but last year they had an employee count of 2,500. You have an employee count of about 4,100, 4,200. That is significantly higher for utilities that are essentially at the same level in assets. I understand also that they are largely a thermal operation and you are largely a hydraulic operation. I would like to know where the employees are mostly utilized?

Mr. Brennan: We can provide a breakdown of that at any particular point in time. I presume you are looking at right now. Is that what you are looking for?

Mr. Herold Driedger: Just a general thing for the past couple of years. What I am looking at is we have a

here a corporation, I mean it is the largest, it is the generating corporation. It is the generating utility in this province that is vitally important to us. I know that we have talked about efficiency in the operation and some of the costs that are factored into the Annual Report. I would just like to see actually where we could attribute them back to.

Mr. Beatty: I could not at this moment provide a breakdown of comparisons with Transalta. I can tell you that the CEA regularly keeps productivity data provided by the utilities themselves. We watch this very closely. I can tell you that across the country, from the standpoint of energy delivered per average full-time employee, we show extremely well. Now I can get those numbers for you but perhaps Bob has some numbers here. I could get those for the committee. Without making an absolute comparison to Transalta and the differences in the operations, which I must consider, I can say that we show extremely well against hydraulic utilities.

Mr. Brennan: Out of the 4,300 employees we have as of the end of August, 2,800 are involved in energy supply, in customer service and marketing.

Mr. Herold Driedger: The other 1,500 would be then doing what?

Mr. Brennan: I can give a breakdown of the major components. In the total Finance area, there is 576; and Engineering and Construction, 731; Corporate Relations, which is 142; and the rest are in various other sundry small groups.

Mr. Herold Driedger: Since you have that material probably readily available, if you could just provide me with a history of about 10 to 12 years, I would like that.

Mr. Brennan: We will provide that.

Mr. Storie: First, I would like to thank the staff of Hydro for the excellent work that they have done in the past and I am sure will continue to do. I would like to specifically thank Mr. Beatty for debunking this morning the Liberal myth with respect to Limestone. It is rather unfortunate that the Liberal Energy critic (Mr. Herold Driedger) comes here to learn about Manitoba Hydro while making statements during the election that subsequently were totally erroneous and have been shown to be so this morning.

I have a couple of short questions to the Chairman and the President, the first one was with respect to the domestic requirements, the domestic load growth. I heard, and I hope correctly from the President, that the domestic requirements for Manitoba are such that the production at Limestone will be required in early 1990. Is that correct?

Mr. Beatty: Yes.

Mr. Storie: Mr. Chairperson, I have a couple of very short questions. I would like to ask the President of Manitoba Hydro whether, in his view, the Northern

States Power contract was a good deal for Manitoba Hydro.

Mr. Beatty: Yes.

Mr. Storie: I would like to ask the President of Manitoba Hydro whether, in his view, the NSP contract was good for Manitoba.

Mr. Beatty: Well, we certainly, from the point of view of management of Manitoba Hydro, regard the NSP contract as a solid sale and good for our ratepayers over the long run. Someone had asked earlier, I think, about the cost-benefit ratio. I think the last time in committee we were using, I think the number was 2.32. I believe it is now 2.22:1 at the present moment.

Mr. Storie: So if I can perhaps paraphrase what Mr. Beatty has said and perhaps what Mr. Ransom would confirm and the Minister of Energy and Mines, and Minister responsible for Hydro (Mr. Neufeld) would confirm was in fact that the Limestone project was a good project for Manitoba, a good project for Manitoba ratepayers, contrary to all of the blarney that we have heard with respect to that project. We have learned today that the costs with respect to the construction have been almost cut in half.

I have a couple of other questions with respect to negotiated sales over the last few years. Could the President of Manitoba Hydro perhaps confirm that the firm summer sale of 200 megawatts to Northern States Power was also a good deal for Manitoba?

Mr. Beatty: Yes. We certainly think so, yes.

Mr. Storie: Mr. Chairperson, perhaps the—

Mr. Chairman: Excuse me. Mr. Storie.

Mr. Storie: Sorry, Mr. Chairperson. In my enthusiasm to get to the truth—perhaps the President of Manitoba Hydro can confirm that the 200-megawatt firm power sale to Ontario was also a good deal for Manitoba Hydro and Manitobans.

Mr. Beatty: Yes, Mr. Chairman.

* (1150)

Mr. Storie: Mr. Chairperson, perhaps the President of Manitoba Hydro could confirm that the 50-megawatt sale to Minnesota Power and Light Company was also a good deal for Manitoba.

Mr. Beatty: Yes, Mr. Chairman.

Mr. Storie: Perhaps the Minister responsible for Manitoba Hydro (Mr. Neufeld) can now tell us whether, in view of the fact that all of these negotiated power sales were good for Manitoba, can the Minister confirm that his policy and the policy that was enunciated by the Chairman of Manitoba Hydro to look towards more domestic use and to not concern themselves to the same extent with export sales is wrong-headed and

not in the best interests of Manitobans or Manitoba Hydro ratepayers? Could he perhaps confirm that this morning?

Mr. Neufeld: Firstly, I would like to put on record that the reduction in the estimated cost of Limestone, as Mr. Storie has suggested, was in any way good planning on his part. The reduction of costs in Limestone was a factor of the formula that is used in order to estimate the cost of future projects. The principle reason, the main reason for the reduction in the estimate was the reduction in the inflation rate and, secondly, the reduction in the interest rates. If Mr. Storie wishes to take credit for that, then so be it—(interjection)—it is not 1.1 billion under, that is all inflation and interest, Mr. Doer.

Secondly, if you take the construction of Limestone and the sale of power in isolation, that is one thing. But if you consider that the sales that have been negotiated may mean that Conawapa has to be advanced, then it is not a good deal for Manitobans. I say that because the cost of Conawapa generation is going to be substantially higher. Indeed it is going to be probably twice the cost of Limestone. If indeed the sale of power to Northern States Power results in the advancement of Conawapa to 1999, then the Manitoba ratepayers will pay more.

Mr. Storie: Mr. Chairperson, I am not sure that I agree with much of what the Minister said. I would ask him to clarify whether his comments—he has just enunciated the point of view that somehow Conawapa would not be required for domestic use in any event. What is the date that it would be required for domestic use? Is that not 1999?

Mr. Neufeld: Without the sale of power to Northern States Power and other sales, Conawapa would not be needed until probably—and I will let Mr. Beatty answer that, but I would guess somewhere around 2010.

Mr. Beatty: Yes, the requirement, the '99 in-service date requirement for new generation factors in domestic load and our current commitments, there is no doubt about that. I cannot give you the date at the moment, perhaps Bob can or Ralph, which if you X'd any of these extra commitments, sales commitments, would result in the change of the in-service date. Can you comment on it, Bob?

Mr. Brennan: Clearly, it would be a significant period of time.

Mr. Storie: I guess the point I am trying to make is that given that there is a 2:1 benefit-cost ratio, given that Manitoba Hydro expects and Manitoba expects to earn significant profit from that sale, given that there is potential for other similarly structured negotiated sales, why is the Minister setting this particular option for Manitoba Hydro onto the back burner, given that it is profitable, is beneficial to Manitoba ratepayers and to Manitobans and to Manitoba Hydro?

Mr. Neufeld: I do not think that you can take sales that have been made in isolation. There is a far greater

impact later on, as we use domestically the power that is left available for us. If that means we have to advance the next generation at a cost far in excess of what Limestone will be and far in excess of what the average rate of generation today is, then it may not be such a good deal.

Mr. Storie: I am a little confused, because the Chairman of Manitoba Hydro said a few minutes ago in his opening address that nothing had changed when it came to negotiating sales for Manitoba Hydro. Certainly, the attitude of the Minister is a complete contradiction to that statement. The Minister, Mr. Chairperson, seems to be saying that there are all kinds of reasons why we should not be doing that, despite the fact.

We learned earlier today, the Minister is reported as saying that the upper Mississippi power negotiations are off. Through neglect or whatever, those negotiations have come to an end, and he would leave on the public record the opinion that there were no serious negotiations. Those negotiations have been bungled. The fact is that the cost benefit—and I believe the Minister acknowledged this publicly once—would have been similar to the NSP sale which helped us to initiate Limestone. Is that the case? Have we bungled it already?

Mr. Neufeld: That is absolute nonsense, and I do not think I am going to even dignify that with a reply.

Mr. Brian Ransom (Chairman of the Manitoba Hydro-Electric Board): Mr. Chairman, perhaps I could clear up one situation here, well two or three points perhaps. I would want it to be understood what the facts are. Mr. Storie has asked Mr. Beatty to confirm that certain sales were good sales and they were profitable sales. Mr. Beatty has answered that in a forthright manner, but I would not want his answer to be taken as being supportive of the position that there was somehow a \$1.7-billion profit associated with the Northern States Power sale. That simply is not the case.

Secondly, if Mr. Storie and Members of the committee would like to have a report from those people involved in the export power negotiations, we would be quite prepared to provide that.

Mr. Storie: I do not know that we need to get into a debate about how much the profit is going to be from the Limestone sale. I do recall that the National Energy Board, an independent body, suggested at the time that agreement was submitted to them that the profit would be \$1.7 billion. I do know that things have changed, but I believe I heard the President of Manitoba Hydro suggest that, although the benefit-cost ratio has been reduced from 2.3 to 2.2, the fact of the matter is it is still tremendously beneficial to Manitoba Hydro, \$2 for every dollar that we spend.

My question, however, is, given the attitude of the Minister and the seeming support in public statements from the Chairman of Manitoba Hydro, my question is to the Minister, can we not expect on behalf of Manitobans that our wealth and the potential for wealth that exists in our hydro resources will be tapped? Are

we going to leave the export of our resources to oil and gas in Alberta? Are we not going to proceed as responsible managers of that resource to export it? Are we going to let sales like the upper Mississippi one fall through? Are we going to let them fall through, the deal that was possible certainly with Ontario Hydro? What is the potential? Are we simply turning our back on those potential sales for ideological reasons?

Mr. Neufeld: I think we have to remember that incremental costs of new generation is going to be substantially more than the incremental costs the construction of Limestone created. If we are going to sell power out of the new generation which is Conawapa—let us take Conawapa as an example—we will not sell that power for less than the incremental costs. It is my view personally that we will not get those increased costs at this time. You will have to wait until other factors come into play, and that those costs are recoverable from export sales. That is our personal view.

* (1200)

Mr. Ransom: Mr. Chairman, I just would like to explain to the Committee from the perspective of the Board of Manitoba Hydro whose responsibility it is to make policy decisions and to recommend to the Government certain directions that Hydro might take, in carrying out those responsibilities, we think that it is incumbent upon us to look at all of the alternatives that are available.

When the management of Manitoba Hydro comes to me as Chairman and says there is a possibility that the life of the thermal plants at Brandon and Selkirk might be extended and, therefore, might provide a cheaper source of power, I believe it is incumbent upon me, as Chairman, and on the board to examine that possibility. We are not talking about building new thermal plants. We are talking about extending the life of existing thermal plants. I am not going to turn my back on that kind of recommendation until I have all the facts, and then we will make a recommendation to the Government.

With respect to export power sales, the same people are negotiating export power sales now as were negotiating export power sales six months ago, with one exception. There has been no change in the directives given to the people negotiating those sales.

In the matter of the Upper Mississippi Power Group, that group of power users indicated to us in July, I believe, that they were no longer interested in pursuing that possibility of purchase. If the Members of the committee would care to hear the details concerning those negotiations, we are quite prepared to have the staff who are actually involved in those negotiations answer the questions here.

When we are talking about profit with respect to the Northern States Power sale, Mr. Chairman, I would simply like to point out to the committee that under The Energy Foundation Act, it called upon for a sharing of revenues over and above the costs, between the Manitoba Energy Foundation and Manitoba Hydro. The

negotiating position put forward by Manitoba Hydro two years ago was to share net revenues, shareable revenues of \$845 million, as opposed to the \$1.7 billion that was initially put forward as being the profit associated with this sale. We simply want it understood that when the Chairman acknowledges, as he should, without constraint that he regards those sales as being beneficial to Manitoba Hydro, neither he nor the Board of Manitoba Hydro are endorsing the misleading statements that were made at the time in presenting that as being a \$1.7 billion profit.

Mr. Storie: Mr. Chairperson, I think the indignation of the Chairman of Manitoba Hydro should perhaps be directed at the National Energy Board who I believe used that figure. Nonetheless, he has confirmed that there is significant profit to be had for Manitoba. I guess when you understand that, even using your figures, which I cannot dispute at this point but certainly have been disputed in the past, the fact is that for the size, the scope of that sale where five-twelfths of a generating station for 12 years when its life span is 100 years, to suggest that \$865 million, let alone \$1.7 billion can be recovered for the province in terms of revenue, is a phenomenal achievement.

My question to the Minister is, has the Minister met with anybody from Northern States Power to encourage them to continue negotiations? Did the Minister instruct the Chairman of MEA to meet? I heard Mr. Ransom suggest that he had sent his negotiating team, clearly who went without any motivation to proceed, given the attitude of both the Chairman and the Minister. Did the Minister or the Chairman of Manitoba Hydro, the Chairman of MEA attend these negotiations? Was there really a willingness or have we gone through the motions since April 26th?

Mr. Ransom: I have offered to have the people who are negotiating answer whether they feel that they have been constrained in any way in the negotiations that they were carrying out. We are prepared to do that.

The question, at least, that the Honourable Member was raising concerning whether or not we were turning our backs on a capital development plant such as Conawapa, I simply want it to be clearly understood that what the board is doing and what management are doing is looking at what the best alternatives will be to provide the power that is required for Manitobans at the lowest possible cost. The cost that is going to be associated with the Conawapa station and the attendant Bipole III line is close to \$5 billion. I believe, as Chairman of the Board, and I think management all agree as well, that it would be foolhardy of us to proceed to commit to that type of expenditure until we are absolutely certain that it is in the best interests of Manitobans.

Mr. Herold Driedger: Yes, probably just following a little bit along that. I am just going back to your remarks earlier, Mr. Ransom, when you were going to recommend the repeal of The Manitoba Energy Foundation Act so that all revenues that would be accruing from export sales would come back to Manitoba Hydro? Is that correct?

Mr. Ransom: That is correct.

Mr. Herold Driedger: Further along the same line. You were also going to recommend to the Government then also that all future long-term plans, all future everything, was to be again brought before the Public Utilities Board? You were going to recommend that? You realize that is not something that you can say will happen, but you have to recommend to the Government? That is correct?

Mr. Ransom: Yes, I am going to recommend that; we are going to recommend that. One of the reasons for recommending that is so that there will be an objective non-partisan forum available for the review of Hydro's generation plans. There will be less opportunity for the using of Manitoba Hydro for the benefit of Government as opposed to the benefit of the users of Manitoba Hydro. That, I believe, we will have for the first time by going to the Public Utilities Board in that objective form. The people of Manitoba and anyone who have an interest in how the utility is managed will be able to go there and operate in that objective forum. We think that will be beneficial.

Mr. Herold Driedger: When will those recommendations be made?

Mr. Ransom: I have already made my recommendation, Mr. Driedger.

Mr. Herold Driedger: With respect to the costing or the potential costing of Conawapa, which I think you mentioned \$5 billion, what are your economic factors that you are utilizing right now? What interest rates are you predicting? What rates of inflation are you predicting for that particular estimate? Is that current or have you done some forward thinking along this line?

Mr. Ransom: Mr. Chairman, I will ask staff to respond to those questions, please.

Mr. Brennan: The forecast, and I should qualify this by saying that we are in the process of revising all our forecasts for the board. It will go forward to the board probably in November, but the existing forecast we have available now has Conawapa with a '99 in-service date at a total cost of \$3.1 billion, and the related transmission at \$1.68 billion, and that is using 10 percent interest and 5 percent escalation.

* (1210)

Mr. Herold Driedger: A few moments ago, I believe it was Mr. Ransom mentioned something with respect either to table a report regarding the negotiations of the Northern Power Sales. Was that what you were saying, or was it just simply could have the negotiating committee report to the committee based on questions?

Mr. Ransom: My offer, Mr. Chairman, in view of the allegation that the sale had been bungled by the Government and by Manitoba Hydro was simply to have an objective report from staff who are actually

involved in the ongoing negotiations and they could inform the committee to the best of their ability as to what happened with respect to those negotiations.

Mr. Herold Driedger: Just a question, once more, with contracting. When you have your contracts let for, say Limestone, because Limestone came in so much under projected budget, the contracts, are those cost-plus contracts or are they lowest-tendered contracts?

Mr. Beatty: Mr. Chairman, our Vice-President of Engineering and Construction, Don Kilgour, could probably go into detail on the mix in the alternative arrangements for the contracts.

Mr. Don Kilgour (Vice-President Engineering and Construction): Most of the contracts are put out on a competitive basis and it is either unit price or lump sum. There are a few contracts that are put out on the basis of cost plus, and that is normally only done when the level of detail is such that it has to be prudent to have a cost plus rather than unit price; in other words, you do not have sufficient information.

Mr. Herold Driedger: How much of the actual construction of Limestone is benefitting southern Manitoba? Could you do a percentage breakdown essentially as to what percentage of the construction that is going up there is accruing to the south here?

Mr. Kilgour: I think what we normally do, we keep track of Manitoba content as a whole. That record is kept by our purchasing people and, if I remember the figure correctly—and, Bob, you can correct me if you disagree—the figures as far as Limestone are concerned are contracts on the job and all purchase orders of the percentage of Manitoba content in total is 74 percent of the total value of contracts awarded, plus an additional 14 percent associated with the G.E. Offset Benefit Agreement.

Mr. Herold Driedger: With respect to Limestone as well, the Limestone Training Agreement, which utilized northern labour, I understand it is still being utilized and according to one—I think it was the Member for Churchill (Mr. Cowan) who referenced that of these people involved, about 30 percent were now in apprenticeship programs. I was just wondering what is the rate of either employment right now, and this is not part-time employment but full-time employment in Limestone too which is benefitting people who live in the North as far as employee breakdown is concerned.

Mr. Kilgour: I think it is fair to say that the majority of employment on the Limestone project is considered temporary. I can give you the percentage figures as of August. Every month it does change and if you will just bear with me, I will get you some figures for the month of August.

I can help you out by giving you the figures for '87. During the 12-month period ending November 30, 1987, there was a total of 2,029 persons were hired by various contractors and subcontractors associated with Limestone. Of that number, 472 or 23 percent were

northern Natives, and an additional 11 percent were other northern residents.

During the first seven months of 88, the participation rate of northern Natives measured on a monthly basis has varied from 19 percent to 33 percent, while that of northern residents has varied from 31 percent to 58 percent.

Mr. Herold Driedger: What type of work are these northern residents engaged in, like a Native resident, is it a skilled labour? We know that the Limestone Training Program is designed to upgrade skills and to leave these skills in the North or at least transportable with respect to the employee. What type of work are they actually involved in, like you are using this 23 percent?

Mr. Kilgour: They are actually involved in all areas of the work, but the largest percentage are in the lesser skilled trades. However, with the training programs and also the apprenticeship programs, that is the purpose of it is to get northern Natives and Northerners more skilled in the more sophisticated trades.

Hon. Clayton Manness (Minister of Finance): Mr. Chairman, let me begin by congratulating the Chairman of the board with his commentary with respect to the renewed -(Interjection)- There are members of this committee who seem not to want to take seriously the events and the important deliberations before us.

I am impressed with the fact that there is a renewed, at least a stated, renewed mandate with respect to the slogan "serviced at the lowest cost to the user of Manitoba Hydro." That means an awful lot to me and to my constituents at least, many who are captive to the only energy source that they have available to them. So I understand perfectly well what is meant by that.

Beyond that, Mr. Chairman, I understand when the Minister says that when people ask simple questions as to what is the benefit or whether or not it was a good move to do something, in terms of some profits in the terms of today's thinking, putting that into perspective over the longer term as to what the capital requirement may be to support those profits, and ultimately the rates that are going to be needed to pay back that level of capital cost, all relates to rates and whether or not they will be at their lowest cost sometime in the future.

So, Mr. Chairman, the slogan, "serviced at the lowest cost" is very meaningful to me. To hear that is going to become again the watchword of Manitoba Hydro, and it is not to say that it has not been, but indeed to hear it stated in that fashion is encouraging to me. I am also encouraged by the fact that the members of the Hydro Board are going to attempt to make more public some of the factors that affect the decisions with respect to future capital expansion and therefore to future rates.

With respect to this I, as is known by members of this committee, for many years have asked whether or not the latest projections with respect to profitability around the Northern States Power sale, whether or not

they were holding. I think that was a fair question always, because again it had impact on those rate users if it did not stay in place. I take seriously the offer made by the Chairman of the Board that this information can be revisited, hopefully it will be during ensuing sessions of this committee, because I think it is important that it again be revisited. I am glad to hear that the capital cost associated with Limestone is reduced again, \$100 million is a significant amount of money, whatever the factors may be, make good sense to me.

* (1220)

But, Mr. Chairman, I think it is important that Manitoba Hydro, that the committee take advantage of the offer made by Mr. Ransom with respect to allowing officials who have been engaged in the potential agreement with the Upper Mississippi Group as to what basically has happened. I have before me, dated February, 1986, on the former Government's political letterhead, a statement saying, and I quote: "Pawley announces \$4.3 billion in new Hydro exports." I think it is very important that we get a better understanding whether or not that statement was a gross overstatement at that point in time. I would ask the Minister to provide, and through him the Chairman of the Board, to provide those individuals who have been involved in some period of time, in trying to work towards an export sale with the Upper Mississippi Group as to what specifically has happened. Was that an overstatement at that point in time, gross overstatement? And what, specifically, has happened over the last two years to cause the Minister to yesterday make the statement that the attempts to reach an agreement were ceased some months ago?

Mr. Ransom: We are quite prepared to have staff report on the negotiations. I think the Honourable Minister would not want staff to enter into value judgments with respect to any statements written. I might personally do that, but I do not think it is appropriate to ask staff to make that kind of evaluation. But certainly we can have a report on what has happened with respect to those negotiations. We can have that right now if you wish.

Mr. Manness: Then I would ask that we bring staff forward and ask them to report in a most objective fashion as to what has happened with the arrangements and the negotiations dealing with the Upper Mississippi Group.

Mr. Storie: I am not opposed to having staff do that, however there are several other areas that we would like to touch on today. We are going to meet again and I would certainly propose—but I have some other questions that I would like to broaden the scope of this.

Mr. Chairman: Is it the will of the committee to hear from staff at this point in time?

Mr. Manness: I am not here wanting to disrupt the proceedings of the committee. But yet I cannot estimate how long it would take. If it took five minutes, I would

suggest we do it now. If it takes an hour and-a-half then another day will do.

Mr. Taylor: On that very point, I was pleased that there is other interest in the committee in hearing from staff on this matter. I would request, however, that a written report be prepared prior to the visiting of staff to this committee. I think that would then offer Members a chance to get up to speed on the subject matter and probably be better prepared with questions. I would like to have both, the written report and to have the change to question staff directly.

Mr. Chairman: Is it the will of the committee to proceed in that manner?

Mr. Taylor: My first question is taken care of, which is this one issue, I wanted to see that report tabled.

The thing that I would like to do as a Member of this committee is see in a clearly delineated fashion in a single document, threshold years when major projects are required for the production of electrical power for domestic consumption. One thing I find confusing is to see varying reports in different documents and in different newspaper reports etc., and in the media, stating, well, it is this date and it is that date, and it is this date and it is next date. As a lay person, I would appreciate seeing in some sort of capsulated form, if the corporation could prepare such a document, whether we are talking what year for Conawapa, whether we are talking which year for add on of capacity potentially and lengthening of life of the two thermal generating stations. I wonder if I could have a response back from you, Mr. Ransom?

Mr. Beatty: We were prepared with a number of presentations covering various subjects in case they were wanted by the committee. What the Member is asking, really I think, is some of the detail on load forecast and generation sequence development. You are really looking for a synopsis of both the methodology and the facts of those very critical internal reports. I guess we would be prepared to give that if you wished at any time that the committee chooses.

Mr. Ransom: The presentation, I believe, would be perhaps of the same length as the financial presentation if you are going to get into the load growth forecast. We are quite prepared to do that if the Members of the committee are interested.

Mr. Beatty: To do a really thorough job, this is a bit of a qualification. But to do a really thorough job it would require some considerable period of time. I would think an hour and a half to two hours. If Members are prepared to accept a highly summarized form, I think we could do it in the time that the Chairman, Mr. Ransom, has suggested, in a half an hour or so.

Mr. Taylor: In response to that, Mr. Chairman, I would be prepared as one to accept that, however, the obvious proviso being that there would be ample time to ask more detailed questions thereafter. All right, maybe the staff or Mr. Ransom could bring back a proposed date of that presentation to the committee?

Tuesday, October 11, 1988

Mr. Chairman: It is the will of the committee then that we have a half-hour report on this topic?

Mr. Ransom: We could do it on Thursday, if that is the will of the committee.

Mr. Chairman: Agreed? (Agreed)

Mr. Taylor: A question to Mr. Beatty. Will cost-benefit analyses for all future projects of Manitoba Hydro include social and environmental costs in the calculations, as opposed to just the engineering and financial costs?

Mr. Beatty: Our basic economic analysis is just that. It is an economic analysis. It is a matter of judgment for the board and the Government to apply weights to social and environmental factors which are no doubt, in some circumstances, prominent. But the management draws the line pretty much sensitive to the needs, of course, to consider social-economic factors, we draw the line at the economic analysis. These other areas often require judgment. We bring as much information in terms of hard data to the board as we can, but it is a matter of judgment.

Mr. Taylor: Could the same question then be posed to Mr. Ransom, based on the philosophical question? I want to know where he sees the corporation going on social and environmental impact.

Mr. Ransom: I think it is fair to say that I regard those concerns very highly. If the Honourable Member looked back at some of the historical record in the past, I think he will find that I have a strong commitment to those considerations. I know a lot of the other board members do as well.

Mr. Taylor: Mr. Chairman, will he then, as Chairman of the corporation, direct that these two elements be factors in consideration when doing a cost-benefit analysis for future projects.

Mr. Ransom: I am a little at a loss as to how to answer the question. I do not instruct professional staff as to how to carry out their professional work, but we do expect Hydro staff to give consideration to those factors and to draw them to the attention of the board in the best manner that they can. So I guess that is the answer that I can give you, Mr. Taylor, is that we want to look at them, but it really is not my role to simply instruct how detailed studies should be carried out. If information comes to us at the board and we do not think it is adequate for us to base our decisions on, then it will go back to management again.

* (1230)

Mr. Chairman: The hour being 12:30 p.m., is it the will of the committee to rise?

Mr. Taylor: I would like to call up one question with Mr. Ransom on this if we could, Mr. Chairman.

Mr. Chairman: I believe it is the will of the committee to rise. It is the will of the committee to rise. The Committee on Public Utilities and Natural Resources will meet again Thursday, October 13 at 10 a.m. to consider the Annual Report of the Manitoba Hydro-Electric Board. Committee rise.

COMMITTEE ROSE AT: 12:30 p.m.