

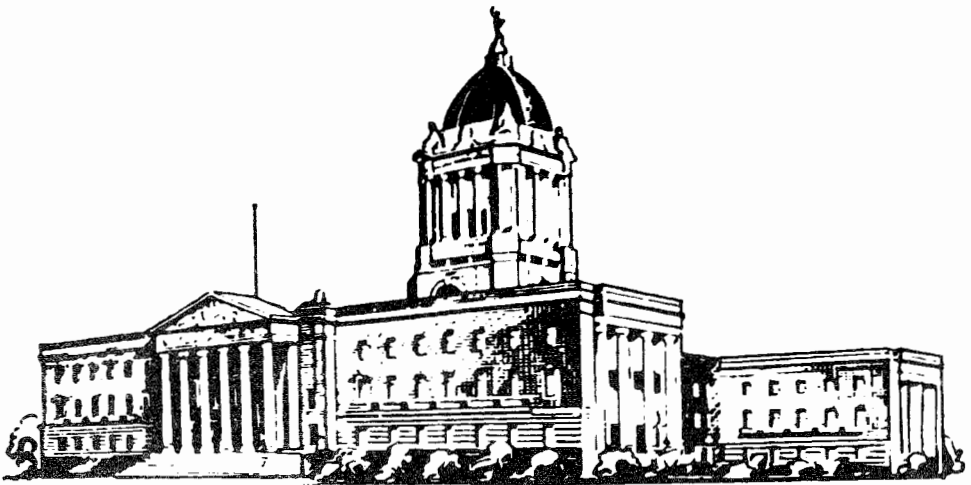


First Session — Thirty-Fourth Legislature
of the
Legislative Assembly of Manitoba

STANDING COMMITTEE
on
PUBLIC UTILITIES
and
NATURAL RESOURCES

37 Elizabeth II

Chairman
Mr. Harold Gillehammer
Constituency of Minnedosa



VOL. XXXVII No. 5 - 10 a.m., TUESDAY, OCTOBER 25, 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
ROCH, Gilles	Springfield	LIBERAL
ROSE, Bob	St. Vital	LIBERAL
STORIE, Jerry	Flin Flon	NDP
TAYLOR, Harold	Wolseley	LIBERAL
URUSKI, Bill	Interlake	NDP
WASYLYCIA-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 25, 1988

TIME — 10 a.m.

LOCATION — Winnipeg, Manitoba

CHAIRMAN — Mr. Harold Gilleshammer (Minnedosa)

ATTENDANCE — QUORUM - 6

Members of the Committee present:

Hon. Messrs. Cummings, Neufeld and Orchard

Mr. Carr, Mrs. Charles, Messrs. Driedger (Niakwa), Evans (Brandon East), Gilleshammer

APPEARING: Mr. B. Ransom, Chairman, Manitoba Hydro-Electric Board

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

Mr. W. A. Derry, Vice-President, Business Development

Mr. R. B. Brennan, Vice-President, Finance

Mr. R. O. Lambert, Senior Vice-President, Customer Service and Marketing

Ms. L. M. Jolson, Vice-President, Corporate Relations

MATTERS UNDER DISCUSSION:

1987 and 1988 Annual Reports of the Manitoba Hydro-Electric Board

* * * *

Clerk of Committees, Mrs. Janet Summers: Committee come to order. We have received the resignation of Mr. Enns, so we must proceed to elect a chairman of the Public Utilities and Natural Resources Committee. Are there any nominations?

An Honourable Member: Mr. Gilleshammer.

Madam Clerk: Are there any further nominations? As there are no further nominations, will you please take the Chair, Mr. Gilleshammer.

* (1005)

Mr. Chairman, Harold Gilleshammer: I would like to call the committee to order at this time to consider the Annual Reports for Manitoba Hydro. The Honourable Minister (Mr. Neufeld).

Hon. Harold Neufeld (Minister responsible for Manitoba Hydro): The mandate of the Manitoba Hydro is to maintain a secure source of power for Manitobans at the lowest possible rate. I think that in itself is about

the extent of the statement that I wish to make at this point. I will answer questions that may come forward.

Mr. Herold Driedger (Niakwa): If we follow along with that statement that the Minister made, the mandate to secure power at the lowest possible rate, I recall at the last committee meeting, I was trying to establish whether or not an actual cost benefit analysis with respect to the construction and fueling of a thermal power plant, what its cost benefit would be in comparison to the next Hydro generating station on the Nelson. I was not making this statement with any degree of stating it, I preferred one option over the other, I just felt that I was looking at dollars and cents operation here and wanted to find out what we, as Manitobans, can expect from our natural resource, which is the Hydro utility—not so much the Hydro utility, but the water we do have on the Nelson.

If, as some of the reports have indicated, that the next generating station on Nelson is going to be a very costly operation, I believe 84 mills, am I correct?

Mr. Neufeld: That is the estimate.

Mr. Herold Driedger: With the 84 mills as the power coming from that generating station alone, just another quick question for clarification. That 84 is not the average utility, or the average system cost then, that is just the generating cost, is it not?

Mr. Neufeld: That is the incremental cost including the cost of the Bi-pole line into Winnipeg.

Mr. Herold Driedger: And that cost then could be factored into the system cost?

Mr. Neufeld: That would then have to be factored into the system cost.

Mr. Herold Driedger: So then the only question that I wanted to sort of explore at this point in time would be to compare the incremental cost to the system of a thermal option as opposed to the hydro option. I was wondering if Mr. Beatty might have some figures to that end.

Mr. Garry Beatty (President and Chief Executive Officer): Mr. Chairman, that is a continuation I think of the discussion that took place the last day between a Member and Mr. Art Derry, and Mr. Derry has done a bit of work on that and I would ask him to come forward and comment on that for Mr. Driedger.

Mr. Art Derry (Vice-President, Business Development): The answer to the question is that thermal plant capital and operating costs based on the

equivalent load factor operation, which means about a 65 percent load connector, would result in the thermal alternative having costs approximately twice the Conawapa and the Bi-pole Three costs. This would be over a six- to seven-year period. We have to compare them with the same life basis. This thermal estimate though includes cost for environmental controls which would be scrubbers and precipitators.

Mr. Herold Driedger: If I remember correctly, the reason that Conawapa is being advanced to 1999 as opposed to 2010 is as a result of the commitments by Hydro to firm power sales. Is that correct?

Mr. Neufeld: At this point in time, there has been no set date for Conawapa. We have said before and we will say again that we are keeping all our options open and, when we come to a decision on the next generation, we will make the announcement.

Mr. Herold Driedger: I am sorry, I did not mean to imply that the decision had been made. We have been talking Conawapa and it sort of becomes one of the words we tend to use and sort of take for granted, but I appreciate that correction.

The reason I asked the question was we do have some firm sale commitments, meaning that we are going to have requirement for domestic load by 1999 which we would not have had if the firm power commitment had not been made. Is that correct?

Mr. Neufeld: The NSP sale.

Mr. Herold Driedger: That is it, the NSP sale.

* (1010)

Mr. Neufeld: Yes, we have a firm power commitment as a result of the NSP sale. However, it is not certain at this time that will automatically result in the need for a new generation in 1999. The other alternatives are still being examined.

Mr. Herold Driedger: Then we come back to the Minister's statement which is to provide secure power at the lowest possible cost. Could I ask the Minister to explain that last statement then as to what other kind of options is Hydro investigating then to try and meet the domestic requirement which might prevent the decision to go into additional generating capacity?

Mr. Neufeld: We have the thermal stations obviously. As well, we would have diversity exchange agreements with other power generation companies. Those would be two.

Mr. Herold Driedger: If we can go back to something that was actually recommended by the Public Utilities Board in the last set of hearings regarding the debt load, what percentage—and I ask this question of the Minister—of Manitoba's total debt is made up of the Hydro debt?

Mr. Neufeld: I believe it is about 30 percent. I believe the total debt is about \$10 billion, and the Manitoba Hydro debt is in the area of \$3 billion to \$4 billion.

Mr. Herold Driedger: Then the bond rating interest rates which were set or the bond rating criteria that we were given the other day when Mr. Manness came back from New York, these ratings are then determined also including this particular 30 percent factor which is involved in Manitoba's total debt?

Mr. Neufeld: I am told that the bonding companies recognize the self-liquidation of a Crown corporation debt. To what extent they might recognize them, I would not be sure. You would have to ask Mr. Manness. I am told that there is some recognition given to self-liquidating to the extent that they recognize self-liquidating debt they would take from the balance sheet.

Mr. Herold Driedger: Then following along, what was also suggested by the Public Utilities Board was that the utility was to set a target for a reasonable debt-equity ratio, and they did not define what a reasonable debt-equity ratio for a public utility would be. Could I ask the Minister perhaps to supply that information for us? What is a reasonable debt-equity ratio for a public utility?

Mr. Neufeld: It is difficult to answer that one without going back to my background as an accountant. I think we have to recognize that reserves in a public utility publicly owned is the entire equity. In a privately owned utility you will have capital and you will have a reserve as well. If you add the two, as we have to do in a public utility—I can tell you what I would like to see. I would like to see a 5:1, but whether or not we can ever accomplish that with a public utility, I am not certain.

Mr. Herold Driedger: Then if we take a look at the projections of debt-equities that were provided for us, I believe on Tuesday of two weeks ago, the projections for 1988-89 were 96:4. They stayed this way right through to 1992. Then for 1994-95 the ratio changed to 90:10, or 9:1. Could someone, I suppose Mr. Beatty, explain what happens in between '92 and '94 to bring the debt-equity ratio down? Is there a significant rate increase implied or is this part of the rate increases that are already projected?

Mr. Beatty: Briefly, Mr. Chairman, the NSP sale comes in at that point. I think though that to cover this subject properly, the whole subject of debt, I should ask if Mr. Brennan could continue with his presentation.

* (1015)

Mr. Bob Brennan (Vice-President Finance and Chief Financial Officer): I think two things happen in '94-95. It assumes that all the assumptions that I talked about materialize, including a rate increase scenario that equalled the rate of inflation. In addition to that, in '94-95 we also see some benefits associated with the NSP sale.

Mr. Herold Driedger: Have you made any projections then, Mr. Brennan, as to where the debt-equity ratio might be before the actual need for new generating capacity is, I suppose, brought back on line, because the moment you start looking at a new construction

capacity you are going to have to increase your debt again.

Mr. Brennan: Yes, that is correct. Probably the biggest variable in the forecast in the long term is when you build new generation after that, so I think you are correct in that assumption. We do have forecasts available that go out all the way, even past the point of new generation, with different rate increase scenarios.

Mr. Herold Driedger: I will pass on to my neighbour to my right here for a moment.

Mr. Leonard Evans (Brandon East): Just following along Mr. Brennan's last remarks, I would like to explore this a little further. Just what kind of rate increases are we looking at in the future? I appreciate that it is based on a lot of guesstimates, a lot of assumptions being made, but it referred to possibilities of inflation in the future, benefits from the NSP sale. Really, what kind of rate increases are Manitoba customers going to be looking at in the next year, the next two years, three, four, five years from now?

Mr. Brennan: We are in the process right now of revising our financial forecast. We will present that to our board in November and December, that period. But certainly I guess, in the short term, we are concerned about the drought we are presently experiencing, and whether that will last. But in the longer term we think we can get by with rate increases that are somewhat closely aligned with the rate of inflation, barring any unforeseen problems such as the continuation of the drought. I guess in the short term we are somewhat concerned about the current year, and a reduction of reserves associated with it.

Mr. Leonard Evans: You say rate increases Manitoba customers would be looking at more or less equivalent to the rate of inflation. What is your projection, therefore, for the rate of inflation?

Mr. Brennan: The rate of inflation and the interest rates that we assumed for the last forecast that I reviewed previously were 10 percent for interest and 5 percent for inflation.

Mr. Leonard Evans: Will you repeat that, please?

Mr. Brennan: 10 percent for interest and 5 percent inflation. Those are the assumptions that are based in the numbers that we previously talked about.

Mr. Leonard Evans: Could you elaborate on what you mean by 10 percent for interest?

Mr. Brennan: All new interest—the interest costs for all new borrowings both for capital construction purposes and debt retirement would be at 10 percent.

Mr. Leonard Evans: You assume that future inflation, by future you are talking of a five-year period are you, or a ten-year period?

Mr. Brennan: That was the extended period of time.

Mr. Leonard Evans: What is the extended period of time again?

Mr. Brennan: As long as any of the forecast would go.

Mr. Leonard Evans: I wonder if you could elaborate on that, please. We are not as familiar with your technical calculations here and the assumptions. So you will have to forgive us. Would you elaborate on that, as far as the forecast would go, you suggested.

Mr. Brennan: If the forecast was a 5-year forecast, it would be 5 years; if it was 10 years, it would be 10 years; but we are saying basically the real rate of interest would be 5 over the long term.

* (1020)

Mr. Leonard Evans: That is a rather brave assumption, I would suggest, as we have had experiences of much more serious inflation and more serious interest rate hikes in the past. I know that Hydro is in a difficult position, as many people are, because we do not know what the Bank of Canada's reaction might be. We do not know what economic conditions are. But is that in line with what most utilities are doing? Are they more or less assuming a real rate of interest at 5 percent?

Mr. Brennan: For that particular forecast we felt very comfortable in doing that. We are looking at slightly different rates of inflation and interest now, but they are not materially different. I should also point out that as long as the real rate of interest remains relatively close we felt relatively comfortable in the past. In other words, if interest rates go to 15 percent and inflation is at 10 percent we still felt relatively comfortable with our forecast.

Mr. Leonard Evans: Mr. Brennan also mentioned that in calculating rate increases, the Hydro organization would want to build into that calculation benefits from the NSP sale. Could Mr. Brennan elaborate on that? To what extent do the benefits from the NSP sale have an impact on possible future rate increases?

Mr. Brennan: I believe as we talked earlier, the benefits of the sale were relatively significant in the 10-year forecast. So I do not have the numbers right before me, but we can provide them.

Mr. Leonard Evans: Could you elaborate in a general way without using very specific data, because you do not have specific data with you, in a relative sense, how influential are the benefits of the NSP sale on the rate adjustments?

Mr. Brennan: What it allows the utility to do is when you build a very large plant like Limestone, we are in the position of being able to sell approximately half of the plant at a firm rate wherein we are getting somebody else's carrying cost of their facilities. So instead of selling the power on an interruptible basis, which is what we would have to do if we built the plant for the Manitoba load by itself, we would get a substantially better rate by firming it up.

Mr. Leonard Evans: Mr. Chairman, what Mr. Brennan is telling us, if I can interpret it as a layman, there is substantial benefit therefore to the customers in Manitoba from these firm export sales that have been arranged with NSP?

Mr. Brennan: Yes, there are significant benefits associated with the NSP sale.

Mr. Leonard Evans: Often people throughout the province, and maybe the Chairman has run into this as well, they worry about Manitoba Hydro selling power too cheaply abroad and that some implication that Manitoba customers are subsidizing export sales. What Mr. Brennan is telling us is just the reverse of that, that the firm export contracts that we have entered into will be of benefit to Manitoba customers, and help keep rate increases down. Is that correct?

Mr. Brennan: Yes, over the long term.

Mr. Leonard Evans: What do you mean by the long term, Mr. Brennan?

Mr. Brennan: Inasmuch as we had to advance the plants to make the sale, there were some negative front end costs by advancing the plant that will be recovered through future benefits associated with the sale.

Mr. Leonard Evans: Mr. Chairman, when would the future benefits take effect?

Mr. Brennan: I believe they start as soon as the sales start, which is '93-'94. I would have to confirm that.

* (1025)

Mr. Leonard Evans: 1993, 1994. Okay. We are now in the year 1988, I believe. What are Manitoba customers looking at now in the next year or two in terms of rate increases? Can Mr. Brennan elaborate on what the Hydro organization seems to be coming up with?

Mr. Brennan: Our concern right now, and at this point we are only looking at our revision to the forecast because of the drought we are presently experiencing, but clearly we think we are approaching the time when we are reaching the unforeseen circumstances that we have talked about because of the drought, and certainly if the drought extends at all we will be extremely concerned. We would like to get our reserves up somewhat so that should another drought reoccur we will be financially able to withstand it. I guess what I am saying is that we might have the opportunity or the occasion to go above the rate of inflation at this particular point in time, but management has not come to any conclusions at all in terms of making a recommendation to the board of Manitoba Hydro yet, just looking at the forecast now.

Mr. Leonard Evans: Mr. Chairman, I wonder if Mr. Brennan can tell me exactly what year or what period he is talking about when he refers to management not having come up with any recommendations so far?

Mr. Brennan: That is for the fiscal year 1989-90.

Mr. Leonard Evans: For the fiscal year 1989-90, when would management be in a position to make a recommendation to the board of Hydro with regard to rate increases?

Mr. Brennan: It should be the November and December board meetings we usually talk about it.

Mr. Leonard Evans: So then within a month or two, the Hydro organization will be coming to some decision as to what they think is an adequate rate increase. As I understood, Mr. Brennan, it will likely be above the rate of inflation. The rate of inflation now, I am not exactly sure. For Winnipeg I think it is running close to 5 percent. It does vary a bit month to month but you could average, I suppose.

I would like to ask Mr. Brennan, just what is Hydro's calculation of current inflation. Therefore, if we are looking a bit above that, do we have any ballpark figure of what kind of a rate increase customers may be faced with next year?

Mr. Brennan: I guess I would like to say two things. First of all, I once again would like to point out that the management of Manitoba Hydro clearly has not come to a conclusion on next year's rate increase yet itself. Certainly, the board has not seen anything. It would certainly be premature for me to say what the projection of the rate increase would be. Having said that, all I can say is the management itself is concerned about the drought conditions.

Mr. Leonard Evans: What is Hydro's calculation of inflation at the present time? I know this comes out of Statistics Canada, but there are different ways of using the figures, whether you use last month over month or whether you take an average of the last 12 months that you have available or whatever, or whether you use the Canadian index or whether you use the index for Winnipeg. Just what figure are you using for current inflation?

Mr. Brennan: Our current estimates are assuming that the '88-'89 fiscal year and '89-'90 fiscal year will be 4.5 percent.

Mr. Leonard Evans: Just on notice, I still have other questions to ask on this. If Mr. Orchard wants to ask some questions, then I have some further ones to ask. I will finish this particular group. I have others on other areas but I just wanted to finish on this one.

Mr. Chairman: I thought you were finished.

Mr. Leonard Evans: Just on this—and I realize it is very difficult. Forecasting is the most difficult task any accountant or any financial analyst would have to come up with because we do not control the future. What you think are constant factors are not always constant, and what you think will vary sometimes varies a little less or a little more than what you expect.

I am still not clear about some of the items. To what extent will the drought have an impact? Again, we do not know what is going to happen to rainfall next year.

I guess you would have to talk to people in that field who have something—climatologists or whatever they are called, the weathermen—but there are some estimates by people in meteorology and meteorologists and so on about the rainfall expected in the next year or two. In a rate increase, just what impact would the drought have now and maybe in the next year or two?

Mr. Brennan: Our forecast will be prepared on the basis of average in-flows to our reservoirs, so that would assume average precipitation. The concern would be if we do not get average. The rate increase would be based on average in-flows into those reservoirs.

Mr. Leonard Evans: How much below average are we now?

* (1030)

Mr. Brennan: We have estimated, as I pointed out earlier, that the actual cost of the drought would be in the neighbourhood of \$95 to \$100 million. Now other factors have improved substantially from there. We are not looking at a bottom line net revenue deficiency of that amount. That would be the actual cost of the drought per se.

Mr. Leonard Evans: That cost would be built into any rate consideration. You mentioned your guess of inflation, your forecast of inflation, the cost of the drought, those two factors would be among the various factors you are taking into account?

Mr. Brennan: In the case of the cost of a drought, our reserves are for that particular purpose knowing that we are not always going to get average precipitation. Knowing that, we are recommending that we have some reserves to take care of that. That amount will not be built into reserves totally. We are concerned if the drought continues in the future, though.

Mr. Leonard Evans: I am a little confused, Mr. Chairman, with Mr. Brennan's last comment. I thought reserves were another item besides inflation, besides special calculation for the costs of the job. I thought a decision had to be made with regard to what kind of reserve buildup or adjustment you wanted to make.

Mr. Brennan: I guess what I am saying is that we would not recover the cost of the drought out of a future rate increase. Some portion of it, if not all, will be charged to reserves, after which we would look at a rate increase scenario that would build our reserves back up again.

Mr. Leonard Evans: So what you are saying is that the rate of inflation, you estimate, is 4.5 percent. There will be a decision that has to be made on the cost of the drought and how it might relate to reserve adjustment. So that the bottom line nevertheless will be a rate increase of over 4.5 percent, as I read you at the moment.

Mr. Brennan: I am not too prepared to—certainly that is a judgment that will be made by the board of Manitoba Hydro.

Mr. Leonard Evans: Could I ask you this question? Refresh our memories. What was the rate increase last year and the year before?

Mr. Brennan: The rate increase in 1988 was 4.5 percent and, the year before, it was 5 percent plus a special adjustment associated with an ERSA amendment of 4.7 percent.

Mr. Leonard Evans: Does that total 9.7 percent?

Mr. Brennan: They were two separate increases, one of which was done through the Budget when the Government of the Day amended The Energy Rate Stabilization Act.

Mr. Leonard Evans: Last year it was 4.5 percent, so this year we are likely looking at something more than 4.5 percent, I would assume. Is that a fair assumption?

Mr. Brennan: Once again, I cannot make judgments for the board of Manitoba Hydro.

Mr. Leonard Evans: I appreciate that. Mr. Brennan is in an awkward position, but nevertheless I am just basing—my questions relate to his research and the assumptions that he has to use in building up to the rate adjustment or coming to the rate adjustment. I am just asking what would be a reasonable recommendation to make to the board, understanding that the board will be making the final decision for Hydro. Certainly it would not be less than inflation and, if inflation is calculated to be around 4.5 percent on average, it has to be at least that and likely more, unless some other positive factor came along to cause it to be less than that. I cannot see that.

Mr. Brennan: I think I could agree with that statement, that it would be at least at the rate of inflation.

Mr. Leonard Evans: Where do we stand on the reserves now? I am sorry I did not have the chance to go through all the details on reserves and so forth, but what kind of a pattern do we have on the financial reserves of Hydro?

Mr. Brennan: The reserves level as at March 31, 1988, was \$118.8 million.

Mr. Leonard Evans: What would be the ideal reserve level in Mr. Brennan's opinion?

Mr. Brennan: We would like to have as an absolute minimum the equivalent of two years of drought conditions, which would equate something in the neighbourhood of the worst drought we have experienced, which is in the '37 to '41 period. We approximate that to be in the neighbourhood of \$180 million to \$200 million.

Mr. Leonard Evans: That would mean, just to clarify, Mr. Chairman, to bring the 118 up to 180, 190, or to add 180 on top of the 118?

Mr. Brennan: That would be to bring the total to that.

Mr. Leonard Evans: Okay, others may want to be asking questions. I would just ask another question here. What would be a reasonable amount to add to the 118 in a given year—10 million or 20 million?

Mr. Brennan: I think that would depend on what the entire forecast would look like. If we can absorb new plant that is coming in without unreasonable rate increases and still in the longer term have rate increases that are closely aligned with the rate of inflation, I think we would take that into consideration if that would build up our reserve the way we would like over a longer period of time. In other words, it would depend on the forecasts themselves.

Mr. Leonard Evans: I am not clear, Mr. Chairman, from the answer. What would be a realistic amount to add to the reserves in a given year. I say at this time, '89-90, let us say, given the fact that you are roughly around 118 and ideally you would like to go 180, 190, what would be a realistic amount for a given year?

Mr. Brennan: I think that would depend on our other forecast of costs and revenues that we would have to factor into that as long as there is some degree of sensitivity to our customers. I do not think I can give you an absolute answer without knowing the results of the forecast.

Mr. Leonard Evans: I appreciate that, but I was saying the ideal world.—(Interjection)— Yes, capitalism nirvana. What would be a reasonable amount, given that there was no catastrophe on the horizon or whatever?

Mr. Brennan: I guess we would like to get to the absolute minimum target reserve level of 180 million to 200 million as soon as we could.

Mr. Neufeld: I think the committee should recognize that we are facing a loss of somewhere between \$40 million and \$60 million this year, which will reduce the reserve from the \$118 million level. As well, Mr. Evans has been concentrating only on the reserve to avoid a rate shock in the event of drought which ignores the fact that, whenever we have a new generation, we have a rate shock. So we have to prepare for that. That has been ignored in your question so far.

Mr. Leonard Evans: At any rate, I appreciate what the Minister has just said. I think most customers and the people of Manitoba, people we represent around this table, are always very anxious to know what rate increases are going to be and what the prognostication is a couple of years down the way. I know it is a difficult task and I know there are some factors that are beyond the control of any of us. It does not matter who is in Government, and I appreciate that. The drought is the best example that I know of but, regardless, it is an interesting question to follow, and I think I have a lot of information on that. I gather that the \$118 million reserve is a result of having lost \$40 to \$60 million last year. Is that what the Minister is saying?

Mr. Neufeld: I think the loss last year was in the area of \$16 million which reduced the reserve to \$118 million,

but the current year's estimate of loss is in the neighbourhood of \$40 to \$60 million, which will reduce the reserve to somewhere around \$78 million down to \$58 million. We are talking from a level, if we are talking about the next rate increase, of say \$60 million and not from a level of \$120 million.

Mr. Leonard Evans: I see. Then maybe the Minister could tell us, again it is a policy question to what extent you want to eliminate or tackle that loss. I would think then we are looking at a much more substantial rate increase above inflation, depending on your decision to cope with that particular loss. Is that correct, Mr. Minister?

* (1040)

Mr. Neufeld: The purpose for reserves is to shock against rate increases in the drought years. We would not, I do not think, want to raise unduly the rates to replenish the reserves. That would come gradually.

Mr. Leonard Evans: Maybe I could just ask one question before I conclude at this time because I know Mr. Driedger and Mr. Orchard want to ask questions.

What would the Minister—I know it is difficult to put management on the spot on this and in a very awkward position, but let me ask the Minister: does he have any idea of what kind of a rate increase Manitobans may be looking at next year?

Mr. Neufeld: That recommendation will come from management to the board. The board will be taking their recommendation to the Public Utilities Board.

Mr. Leonard Evans: So the Minister has no idea at this point as to where the Hydro may be going in terms of making an application to the PUB?

Mr. Neufeld: Information that I get obviously has to come from the Manitoba Hydro management; and inasmuch as they have indicated they do not have the necessary information available to make a recommendation at this time, I do not think I have.

Mr. Leonard Evans: Okay. I just want to get this clear in my mind then. Is it a fairer statement to make that in setting next year's rate that the drought conditions will have a much greater bearing on rate setting than will the rate of inflation?

Mr. Neufeld: That is a judgment call. I would leave that to the Manitoba Hydro. It is a management call to determine what reserve levels they would like. I have indicated already that we do not expect to replenish reserves quickly. That would be a long-term project.

Hon. Donald Orchard (Minister of Health): On page 27 of the Annual Report, under rate increases, we have the statement, and that is in the year ending March 31, 1988, Annual Report, "The Manitoba Hydro intends to raise rates to avoid rate shocks for its customers because of either the drought or the coming into service of new generation or transmission facilities."

A question to Mr. Beatty. That statement obviously must reflect your view and the view of senior management of Manitoba Hydro?

Mr. Beatty: Yes.

Mr. Orchard: I guess a second question would be: does that statement apply to the circumstance that we are currently in of bringing Limestone on stream; i.e., an increase in rates to avoid rate shocks from the in-service commissioning of Limestone?

Mr. Beatty: It would apply in the general sense. Taking away considerations arising from the current drought, it was not our expectation; that is to say we expected the coming into service of Limestone to be absorbed in the effects of that, the increased cost to be absorbed in the reserves that we had provided for. I have to say that is prior to the present drought.

Mr. Orchard: If I follow in your answer, that rate increases build reserves as an analogy and those reserves in part, as well as offsetting the drought that we are facing this year, were also intended to offset in part rate shock increases from the in-service commissioning of Limestone?

Mr. Beatty: Yes. Reserves are there to protect the corporation against a variety of risks, the greatest of which, by and large, for us is a possibility of drought, but it also includes the need to absorb significant cost increases associated with the coming into service of a new plant and certain other risks that can occur from time to time.

Mr. Orchard: I guess that is where I am somewhat concerned over responses to similar questions last year at this committee. It stimulated around an article, Mr. Beatty, that you had in Mid-Canada Commerce, January 1987, wherein you indicated that in order to avoid rate shock—I can read the quote, “Such gradual increases in rates help avoid the rate shock of sudden large increases in the cost of electricity when new major generation and transmission facilities are placed in reserve.” That caused some concern by the then-chairman of Manitoba Hydro and resulted in a correction statement by Mr. Prior, Public Affairs, of Manitoba Hydro.

Certainly, Mr. Beatty, your answers last year at committee were not as definitive in terms of building reserves to avoid rate shock. I guess the question I would have is: were you under some instruction last year from Mr. Eliesen to not indicate that rate increases and a reserve build-up were necessary to avoid rate shock from Limestone?

Mr. Beatty: The decision to make that correction, or that letter, was my own decision. It was based on an understanding that it was board policy to not be specifically providing for, that our then-current financial forecast allowed us to absorb the cost of Limestone with our then-current reserve policy. I agreed to make the correction because I did tend to give a counter impression. I did try to correct that at the end of the

Session last year. I perhaps did not do a very good job of explaining it. That was the board policy as it was explained to me at that time and I felt obliged to make the correction on that basis.

The general statement that you see on page 27 certainly holds. You normally have additional costs associated with the coming into service of a new plant. That is, on the surface, patently obvious. I did not intend to deny that fact.

With respect to the specific circumstances of Limestone at the time, our then-current forecasts did, it is true, indicate that our provision for reserves would allow us to absorb any rate shock associated with Limestone. So I attempted to deal with that in that way.

Mr. Orchard: Let me just make sure I am correct in the understanding.

At the commissioning and the advancing of Limestone from 1991 to 1990, was it not board policy that there be rate increases sufficient to build reserves to avoid a rate shock with the commissioning of Limestone and the advancement of Limestone? Was that not board policy?

Mr. Beatty: Board policy, as explained to me, with respect to Limestone—and you will recall I entered the president’s office about the time that this confusing article appeared—was to proceed with rate increases closely aligned with the rate of inflation; that that would build, in due course, over time, an appropriate level of reserves to accommodate drought and, at the same time, handle any rate shock associated with the coming into service of Limestone; that it would do that. That was the policy as I understand it at that time.

* (1050)

Mr. Orchard: Then your statement that you made in Mid-Canada Commerce in January of 1987 would have been a correct statement that gradual increases in rates help avoid the rate shock of sudden—those rate increases being at the rate of inflation?

Mr. Beatty: Yes, that is generally true. Absolutely. The way that particular article appeared, it did tend to lead to the impression that there were reserves being developed specifically to accommodate rate shock in the case of Limestone, when, in fact, it was thought that the reserve policy designed to accommodate drought would also pick up any cost associated with absorption of Limestone.

Mr. Orchard: I think that we have an interesting situation and possibly another one of the previous administration’s interference with the senior management of Manitoba Hydro, because when you made the statement to Mid-Canada Commerce that part of the rate increase was to avoid rate shock, that seems to be a consistent thread of policy by the board. In fact, the former chairman of the board, Mr. Cherniack, on July 26, 1984, communicated that to Mr. Parasiuk by letter; wherein Mr. Cherniack said, “Such a rate

policy will eliminate the sharp rate increases associated with the addition of the Limestone Generating Station to the Manitoba system."

Yet it appears, when you were forthright in making the public aware that was part of the rate increase scheduled, Mr. Eliesen and the then-Government decided that you had better retract rather rapidly in an effort to hide the reality from the people of Manitoba of Limestone and what its impact was going to be on the system because the retraction or the correction, if you will, by Mr. Prior, subsequent to the January '87 article in Mid-Canada Commerce indicates that you had asked—"Mr. Beatty has asked me to make it abundantly clear that the main purpose of reserve funds is to enhance the utility's ability to withstand the economic impact of two consecutive years of drought condition on the Manitoba Hydro system," which seems to be quite contrary to what Mr. Cherniack communicated in 1984 to Mr. Parasiuk regarding the needs for gradual increases in rates.

Mr. Beatty: It is certainly narrower and I am well aware of that. That statement quoted is as the policy was explained to me at that time by the chairman.

Mr. Orchard: I accept that, Mr. Beatty, that the chairman had, I suppose, two hats to wear, and one of them might have been more political than it should have been—the former chairman, Mr. Eliesen.

Just a couple of questions in terms of the Northern States Power sale. When announced back in '84 or '85, it was touted as potentially yielding a "profit"—and I put quotations around the word "profit"—of \$1.7 billion. What is Hydro management's current projection in terms of the profit associated with this sale?

Mr. Beatty: Since we may get into a fair bit of detail on this issue, I am going to ask Ralph Lambert, Mr. Chairman, if I may, to deal with this question of the NSP sale. The number, though, quoted was not a number, I believe, that came out of management of Manitoba Hydro, but I will let Ralph deal with that number. In unescalated dollars, it is around \$300 million.

Mr. Neufeld: I think the committee should understand that when we deal in net income or profit of the NSP sale, the numbers that I believe we have of cost are based on the average cost of the system and not on the incremental cost of Limestone. I do not believe that we have the numbers for the incremental cost of Limestone.

However, having said that, I think it is important to note that whenever you bring new generation on stream, you have to recognize that some of it is necessary presumably for your own use and you try to sell the excess. It is to the extent that you are able to get firm contracts for excess that you benefit.

Mr. Orchard: There are a number of factors impacting upon how you calculate "profit" in any sale. I guess that has always been a subject of discussion.

But basis the criterion under which the Northern States Power sale was announced, the then

administration indicated a "profit" of \$1.7 billion. Using the same criteria, because we have had a number of circumstances change, namely, the cost of the coal fire plant is dropped which was factored into the pricing formula, the cost of coal is dropped, what is the current calculation of profit associated with that sale using the same development criteria in calculations as were used to develop the \$1.7 billion "profit?"

Mr. Beatty: I will ask again Mr. Lambert to deal with that if I may. But the net benefit in '84 dollars at that time calculated was, in '84 dollars, was \$302 million. I will let Mr. Lambert, if I may, deal with the question.

Mr. Ralph Lambert (Senior Vice-President, Customer Service and Marketing): I believe the question was trying to relate the \$1.7 billion that was referenced previously to what it would be today, using assumptions of today, and the comparable number to compare with the 1.7 today would be 1.2.

Mr. Orchard: So that basically, despite the fact that Limestone is coming in under budget according to all of the predictions, our projection of the "profit" is now dropped by \$500 million in three years. What would the \$1.2 billion then—getting into 1984 dollars—represent in 1984 dollars?

Mr. Lambert: In 1984 dollars?

Mr. Orchard: Yes.

Mr. Lambert: \$301 million.

Mr. Orchard: It is my understanding that this flow of net revenues, if I recall the application before the National Energy Board, there was a flow of revenues in which, if my memory serves me correctly, from the sale time 1993 to the year 2005, the first number of years had a negative cash flow and the balance, the remaining several years—and I forget exactly which ones—had a positive cash flow according to the calculations that I recall from the National Energy Board presentation.

If we accept the \$1.2 billion "profit" and we bring it down to 1984 dollars of \$301 million, is there a projection of what actual cash accrual will occur to the corporation over the 12-year period of time in which the Northern States Power sale is in effect until the year 2005? Is there an actual cash accrual that can be given, cash accrual in excess of costs?

* (1100)

Mr. Beatty: Yes. I think we would have to provide that number for you. We do not have it with us right now.

Mr. Orchard: I will defer questions and probably we will be sitting again on Thursday and that would be adequate time.

Mrs. Gwen Charles (Selkirk): I ask the Hydro Committee here if all rates in Manitoba are equal, excluding industry?

Mr. Beatty: I am not sure I understand the question. "Are all rate classes equal?"

Mrs. Charles: Yes.

Mr. Beatty: No, they are not. But if you would like a brief rundown, I would ask Mr. Lambert to give you a run through of the different rate classes.

Mr. Lambert: We have basically three rate classes: one for the residential-type customer, and another one for a general service customer which is broken into large and small general service. A large is of an industrial type and the small general service is, if you like, the corner grocery store. In addition to that, we have different zones that we apply in the rates. We have three zones, what we call Winnipeg high density, medium density and low density. High density is the Winnipeg area, medium density would be all the larger towns throughout the province, Thompson, Selkirk, Flin Flon, Morden, if you like; and the low density would be primarily the rural areas and the very small communities.

Mrs. Charles: When the rates are set, is this an equal rate set across the board, or is there some scale of rating as to the different zoning areas? I am thinking in particular of this year when the drought is affecting, probably most agricultural area and then I assume being in low-zoning rates. Will they get the same impact of inflation and the cost of the drought, or will it be perhaps scaled down for them?

Mr. Brennan: There will be some different percentage but it is not a very significant one. The actual rate per kilowatt hour for anything in excess of the service charge in the first block will be the same throughout the province.

Mrs. Charles: Then I take it that the basic rate is the same and the additional rate charges after that will vary?

Mr. Brennan: The service charge and any blocks are slightly different depending on the zone. There will be a modest difference between them, but it is not really significant.

Mrs. Charles: Could I ask who sets these particular zoning areas and has this been long-term policy? Is this policy ever rethought out as to why some areas are charged more than others, understanding the difference of rate of delivery?

Mr. Brennan: I do not remember the exact date but we did have a very significant review of it within the last, I guess—four years?

An Honourable Member: About four or five years ago.

Mr. Brennan: At which time we reduced the number of zones. We went from four to three at that particular point in time.

Mrs. Charles: Could you tell me who discusses these zoning rate changes? Is this through the board, or is this set by management?

Mr. Brennan: It would be a recommendation from management to the board.

Mr. Herold Driedger: Since we are on the topic of rates, could I just double-check? We were talking about the NSP sale and the need to increase rates to help build up the reserves. The Minister mentioned that the reserves were not going to be built up very quickly, there was going to be a more slow build-up to get to the ideal level of about \$180 million to \$200 million for reserves. Have you factored into the potential idea for what rate increases might be necessary whether or not the NSP sale itself, the revenues flowing from that might be used to help build up reserves?

Mr. Brennan: I would just like to add one thing to this reserve question, too. The need for reserves increases as the Manitoba load goes up, the cost of protecting the rate structure in the event of increases in the load costs us more. In addition to that, when new generation comes on and we take any surplus from that plant and use that to buffer any rate increases, in other words, all our forecasts are based on average flow so we are using that to help as well, but I just want to make that clear, that the 180 to 200 increases into the future.

To come back to your other question. Maybe you could repeat it for me, could you?

Mr. Herold Driedger: I think I got more information from the question you thought you were answering than the question I thought I asked.

Mr. Brennan: I was trying to correct it.

Mr. Herold Driedger: Okay. That is the whole purpose. Actually, we have had some, I guess, debate around this table, some questions that were put by Mr. Storie and again by Mr. Evans, asking, "Is the NSP sale good for Manitoba?", and the answer, like, for Manitoba Hydro, and depending upon which question you asked, the answer is "Yes" or "No" or "Maybe."

We had also, with the Public Utilities Board hearings of last February, we had several different ideas presented as to what should be the direction that Hydro goes for Manitoba's benefit, and one of the people who could is right now, at the present, in the papers criticizing Hydro rate policy, which is Mr. Chuchman, indicating that there actually is no need for massive rate increases at this moment in time because you will actually get the reserve levels that you want a few years later down the road, as opposed to the projections that have been indicated for us here in committee.

I guess actually the question I have for myself is: Who is right? Are the projections that were indicated for us for the Limestone construction and the NSP firm power sale, and the projections of profit, are they correct or are the doomsday sayers correct or is Mr. Chuchman correct? Just exactly how quickly are these reserves going to be built up, and will they have to be built up through rate increases, as you mentioned, because as load increases and everything else increases you need a higher reserve level. Or is it something that can await a year, or two, or three, depending upon the kind of

projections that we have been talking about. I realize we are looking in the crystal ball again.

Mr. Brennan: Okay, I guess, first of all, any sale that management would recommend would be one that would attempt to optimize the facilities we are putting in place, based on our sequence. In other words, we would optimize our future generation plants as best we could.

So the benefits of any of those sale would be used to keep the rates down. The question of what is the biggest variable in our long-term forecast, it is clearly the question of when we build the next plant, what plant it is and how big. Our total long-term debt right now is about \$3.2 billion at the end of March 31, 1988. If we are building a \$4.5 billion dollar plant, it would virtually double that. The question really of what is going to cause future rate increases, it is going to be the timing and type of plant that we build after Limestone.

Mr. Herold Driedger: If the rate increases and costs of electricity in Manitoba are based largely upon when that next big plant, whichever it may be, comes on stream, because that will have to be factored in, could I find out whether or not, since I guess in the past 10 years we have seen a considerable change in the rate policy—now this possibly is more a question for the Minister than Hydro itself—where you had a period of time where rate policy was held fairly constant. Then you reached a period of time where rate policy was increasing to build up reserve levels to withstand drought conditions, to take into consideration the increased load factor and new generating capacity. Is there some determination as to how stable the projected rates will be, based upon Government policy, since all of these things have to be factored in and any industry that we wish to attract to this province, or any industry that makes a decision to stay in this province will have to factor in its energy costs? If these energy costs are going to either not be stable or increasing rapidly, this will be an important factor that they have to put into their projections. Have you any particular policy decisions as to whether or not the Government itself will do things that will cause rates to go up dramatically?

* (1110)

Mr. Neufeld: The first thing we should recognize is that the Government policy is not to interfere with the management of Hydro, which is not to say that they might sometimes suggest rate increases or rates being held. I think we have to remember that in the past—let us talk about this year '87-'88 in which we had a budgeted forecast of a \$16 million profit; \$16 million is virtually a break even for a company this size. It represents just over 2 percent of its revenues and approximately one-half of one percent of its assets.

If you are talking about increasing reserves through budgeting, that is not happening right now because the budget is virtually a breakeven. A slight change in any numbers of areas, as we have noticed, can bring a small profit into a small loss. Our thought would be that we will replenish the reserve on a gradual basis.

As far as your question with respect to the attraction of industry and the retention of industry in Manitoba,

I think I have said before that we do not think that Hydro consumers should subsidize an industry that may want to locate in Manitoba. That is the function of Government from another area.

Mr. Herold Driedger: All right then. What you are essentially saying, Mr. Minister, is that economic development of the province will not essentially be driven according to the Manitoba Hydro truck if you wish, that you are not going to use the utility itself to drive the economic development of the province. Is that what you are saying?

Mr. Neufeld: We have a resource that may be wanted and I think we have a resource that is wanted, and to the extent that an industry may wish to use that resource, we will attract them with that resource. If there are subsidies needed, however, I want to distinguish between the resource and the subsidy. If there are subsidies needed, we have other departments of Government that look after that.

Mr. Herold Driedger: Yes, but what you are essentially saying is that Hydro itself, the utility, will be then asked to function or to sort of manage and direct its concerns without the direct interference whether or not we decide to state—I mean if a decision for developing for export purposes belongs to Government, a decision to say we are going to go ahead with hydro development to boost economic activity, that is a function of Government. That is not a function of the utility.

What I am just trying to drive at here is whether or not the utility will essentially be, I guess, returned to the mandate that I feel it originally had, which was to essentially provide electricity for the domestic user here at the lowest possible rate. I think, for the purposes of industrial development or economic development, we want to have a stable energy environment. If we can use that to develop or to encourage industry and then essentially have the benefits from the industrial development, the benefits from the natural increase in load occurring concurrently, we might not be in this situation where we are wondering whether or not the previous decision to advance the sale or to advance the construction of a Limestone strictly for an export sale was good or not. Right now, we have to wait to find out if it was a good decision. We can speculate all we want, but we are now in the process where we have to speculate, which is a result of having had something occur which was done more to advance the causes of Government than the causes of the utility. This again may happen, but I think it should be clearly understood that this is Government policy as opposed to Manitoba Hydro policy.

If I may just not exactly on the same vein but related, Mr. Evans referenced the fact that, by November or December, we may have some rate suggestions for next year. We have also the suggestion that the chairman referenced earlier, the first meeting we had that a decision about whether another generating station is necessary or not, whether it is to be Conawapa

or not or Wuskwatim or not needs to be made some time in 1989, and bearing in mind also that the chairman has made recommendations to Government that these decisions should be allowed public airing in a forum such as the Public Utilities Board. Is it going to be possible within Hydro's own stated time limit or restraint of a 1989 decision about a go or a no-go on Conawapa to actually have a full-scale hearing of the capital projections and the long-term projections in front of a Public Utilities Board? Will this be possible?

Mr. Neufeld: I would think it would. I think the Government is committed to having Hydro appear before the Public Utilities Board. Whether they appear with a long-term rate plan or whether they appear with a long-term capital plan, I think the two go hand in hand. You cannot have a long-range policy of rates without a long-range policy of construction. As Mr. Brennan has indicated, the two cannot be separated. Yes, we would expect that Manitoba Hydro would appear before the Public Utilities Board before any long-range plans are finalized.

Mr. Herold Driedger: Is there any indication as to when this might occur?

Mr. Neufeld: I think that would be better answered by the Manitoba Hydro management inasmuch as they are more familiar with it than I am.

* (1120)

Mr. Beatty: As I believe Members know, Manitoba Hydro has just come through a very extensive period of hearings and prefiled testimony at the Public Utilities Board completed last February, so there has been a fairly extensive review. We would like to see a thorough ventilation of issues so that the public and the Government and others have confidence in our plans. That is fundamental to any understanding of a rate progression over time. So we certainly welcome the opportunity, if it comes in the form of a new Government policy here, to explain ourselves.

But with respect to timing, I am not sure. We have in place the present legislation. The Public Utilities Board is involved, triggered based on an appeal, which would have to occur after some new rate increase is announced. I do not want to speak for them, but they would probably consider the fact that we have just been through fairly extensive hearings and something like 5,000 pages of prefiled testimony. It took a lot of money, a lot of time, a lot of effort on our part and the part of an awful lot of other people outside of Manitoba Hydro to go through this exercise.

So whether they would call another hearing or not, given that has just occurred a few months ago, I do not know. But if Government policy changes and the role of the PUB and the timings are changed, if at some point that decision is made, then we will have to just take it from there, I think. So I cannot be sure whether there would be yet another intensive review of capital program in the very near future. I would have to wait and see whether this policy does change.

Mr. Herold Driedger: I understand that the last round of hearings essentially dealt with the rate increase only

or the rate increases of the past few years only, and that they also dealt only with a five-year projection, as opposed to we are listening right now to 10-year projections for capital planning. The hearings also, for whatever reason, excluded the whole Limestone question as having an effect on rates. So I would think that if we are anticipating a decision on the part of Hydro requiring to make a decision about future generating capacities within a year from now, it should be incumbent upon the Government, if it has stated that it wishes as full accounting and the full accountability which you have indicated, Mr. Beatty, that Hydro is quite prepared to come up with, despite the fact that you already have just had a large expensive hearing process but it was sort of circumscribed in how far-ranging it could get or it could become.

I think again, to come back to an earlier question that I asked earlier or at least the motive for asking the question, I think the people of the province have every right to know what the full costs of a utility, whether a decision to go one way or another, the alternative costs, everything should be open and aboveboard so that we can see what the final dollars are going to be, because ultimately it is the people of this province who are going to have to pay for whatever the Crown corporation involves itself in, in delivering on its mandate. So could I ask again the Minister, when he sees the Manitoba Hydro presenting its capital plans and rate plans to (a) a board similar to the Public Utilities Board, if that is the avenue that we choose to take.

Mr. Neufeld: The Public Utilities Board is the only one we have at the moment and it is the one that we will have to appear before. I should mention to the committee that there is a new Crown Corporation Accountability Act that will be introduced into the Legislature in the very near future, and that Act in itself will determine or dictate the kind of review that the Public Utilities Board would be asked to make. That Act will be introduced into the Legislature in the very near future by the Minister of Finance (Mr. Manness).

Mr. Herold Driedger: So you are saying we can anticipate having the enabling Act for this to occur well in advance of the need to actually do the full capital cost investigation in front of a Public Utilities Board, so that we can actually have this in place and done before Hydro actually has to make its decision whether to start the next round of generating constructions.

Mr. Neufeld: With the cooperation of the Opposition Parties, yes, there will be a new Act in place.

Mr. Herold Driedger: In this particular end, I think you can count on my full cooperation.

I have a few more questions on rate structure as well. Mrs. Charles asked about the essential setting up of rates across the province and I do not know if I was able to actually get the information or maybe I missed it. The three zones that you have that established rates—the high density, medium density and low density—it is my understanding, as based upon the

answers I think I heard, that the low-density rates would be higher than the high-zone density rates. Is that correct?

Mr. Brennan: I guess at this particular point we have only looked at some preliminary guidelines and we have not come up with any—until such time as we know how we are going to apply, like what the rate increase will be, we will have to look at how we are going to apply it at that point.

Mr. Herold Driedger: I am sorry, that was not the intent of the question. Not as future rate increases but something in retrospect, the actual establishment of the rate, the low-density rate per kilowatt hour is higher than the high-density rate per kilowatt hour. Is that correct?

Mr. Brennan: The run-off rate is the same for all three zones. The service charge to the first block is higher for the low-density rate charges.

Mr. Herold Driedger: Then this is just to question to try and, as Mr. Evans earlier referenced, we do not understand all the terms. What do you mean by the "first block"?

Mr. Brennan: We have a basic charge and we have a first block in the case of the residential rate that is composed of 175 kilowatt hours. Those particular rates are different by zone. The balance of all the kilowatt hours consumed are the same throughout the province.

Mr. Brian Ransom (Chairman, Manitoba Hydro-Electric Board): This is not an effort to limit the questions here by any means, but I would just like to put on the record that we would be quite happy at Hydro to provide some briefing to any Members of the Legislature who wanted to come and have some discussion about the issue of rate-setting, for instance. We would be quite happy to do that. All we would ask is that they try and organize it so that we are not doing too many of them.

Mr. Herold Driedger: I understand. For us, it is a first-time effort here. I may be bouncing around like a rubber ball a fair bit, but the intent here is simply to find out whether or not the general kilowatt costs for the consumer throughout the province are essentially the same, that the rural resident does not have an undue hardship placed upon him by virtue of the fact that the service is more costly to provide.

What you are actually saying or what I have heard you say is that the costs are factored in across the province so that essentially whether it is high density or low density, except for the first block, essentially the cost of service is the same residentially, for the residential user.

Mr. Brennan: The basic charge in the first block is different, with anything above 175 kilowatt hours paying the same rate. So anybody with the same consumption would pay more in the low-density areas.

Mr. Herold Driedger: If this fits in within the parameters of Mr. Ransom's suggestion, what policy does Hydro have with respect to who or what gets a flat-rate charge?

Mr. Brennan: The only flat-rate charges we have are those services that are not metered right now, and we do have some flat-rate water heating and some light fixtures. That is the extent of it.

Mr. Herold Driedger: So, essentially you mean the objective would be to have every electrical use metered?

Mr. Brennan: Yes, from a Manitoba Hydro perspective.

* (1130)

Mr. Herold Driedger: Just a question, did the fact that Hydro computerized its billing system, did that end up raising costs?

Mr. Brennan: The fact that system costs something to develop and operate, yes.

Mr. Herold Driedger: Are these costs actually going to be absorbed and then no longer incremental, or is there going to be a continual cost involved with the computerization?

Mr. Brennan: No, that was a first-time cost. There will still be processing costs with the service bureau we use, which is a provincial utility, but that is it.

Mr. Herold Driedger: I have some questions that are not on rates or rate structures, and I think that Mr. Evans would like to continue on.

Mr. Leonard Evans: Yes, thank you. I have a couple of follow-up questions and questions of clarifications with regard to rate setting. We did talk to Mr. Brennan but if either he or maybe Mr. Beatty or whoever could describe to the committee just what is the benefit to Manitobans of export sales?

There has been a debate. There are some people who feel that exports should not be entered into, that they are costly to the domestic customers, domestic consumers. The other point of view is that the export sales outside of the province, in this case I guess the United States, have benefit. Obviously there has been a decision made, because there is assumed that there is a benefit or it has been calculated that there is a benefit. I wonder if Mr. Beatty or whoever could describe, in terms of what the layman, the people of Manitoba could understand, what benefits are we going to see from the export sales that are being planned now?

Mr. Beatty: I will let Ralph Lambert comment on that in a minute. I have already indicated that or tried to indicate that we would not recommend an export sale to the board if we did not feel that it was beneficial to our domestic customers. I think we have said before and I think the Minister and chairman have said that the best interests of our Manitoba customers is the underlying criterion.

Having said that, then we are down to the specifics of how good a benefit or how beneficial is a particular sale or may a particular sale be. I am sure that does

not answer your question, but perhaps I will let Ralph comment.

Mr. Leonard Evans: Excuse me. Just before you do that, could you answer this question? It may sound naive and maybe you have had to answer it before, but generally speaking, the projected export sales, the cost of the sales to the customers in the United States, will the customer in the United States be paying less or more than the customer in Manitoba? There is an assumption in Manitoba through a lot of people who have said to me they think we are (a) subsidizing the exports; and (b) that therefore the people in those jurisdictions who are going to obtain our Manitoba power sales will be getting it at a rate lower than Manitoba domestic customers.

Mr. Beatty: What the American customer ultimately pays for their power from their utility will depend on the total system costs and corporate structure of the utility they are dealing with in the U.S. But the utility that we are selling to will only buy if it is a good deal for them. It has to be obviously a good deal for us, but we will not make the sale unless they regard it as a good deal for them. In any case, in the end, that U.S. customer is going to be paying certainly on average more for their power than our domestic customers are.

Our development opportunities for the next generation come along in a very lumpy way. Economics of generation sequences that tries to take into account every conceivable cost and we make a judgment on that basis, and we base it on our domestic load obviously and any commitments we may have entered into in the past. If we have an opportunity to make a sale that is good for our total revenue, with excess power, surplus power, that exists at any point in time, we will make it. Or if they are going to be entered into other arrangements, Interties for example, that we think strengthen the integrity of our own system and will in the long run be good for our domestic customers, we are going to do it. I am not sure that I am getting at the point you are after.

Mr. Neufeld: I think the committee must understand that demand may be only say 100 megawatts and a new generating station will bring in say 1,200 megawatts. It is only prudent for Manitoba Hydro to attempt to sell those 1,100 megawatts at a declining rate so, as new demands are needed by Manitoba consumers, that demand is met by the declining sale to an outside user. The sale should supplement the cost of the new generating station. It should not be the reason to build a new generating station. That is, I think, a prudent way to look at it.

I think we also have to remember that if a long-term sale causes the advancement of the next generation, it is a new generation incremental cost that has to be considered relative to the revenue brought in. That would not be, I do not think, a good comparison.

Mr. Leonard Evans: That is the question that is being confronted right now.

Mr. Neufeld: We attempt to isolate each sale and each new generation. They cannot be isolated. They have to be taken in the full context.

Mr. Leonard Evans: I believe Mr. Beatty was going to ask Mr. Lambert to elaborate on some of this, related to the question.

Mr. Lambert: Bear with me if I repeat some of the stuff that Mr. Beatty may have said. The basic principle or the basic objective that Manitoba Hydro employees, in looking at export sales, is to see how they will function in tune with our own system development, and a criteria that we use is whether or not a sale will provide revenues and returns to the utility that will result in rates to our domestic customers being lower than they would otherwise be without the sale.

There are a couple of basic situations that occur in our utility operation. One is that because we are a hydraulic system, and we must build our facilities to accommodate variations in water conditions, and our criteria is to build a system to be able to supply our domestic requirements during times of, say, drought conditions, then there are frequently times when we have generation available because we have water available that exceeds the drought situation in which we can sell energy.

As part of our system, and it has been for a number of years, we will sell surplus hydraulic energy, more or less, depending on water conditions, that exceed the drought situation and we will sell interruptible energy on the export market, that being to the south, to the U.S., or to the east and west of us, to Ontario and Saskatchewan.

Our experience to date on that is that the revenues from those sales have always assisted us in terms of maintaining our rates lower than they would have been otherwise. As other people have indicated, when we are required to bring on new generation, it comes on in large lumps and it exceeds the requirements that we would normally need to cater to our own load growth in the short term and, as a result, we look at the opportunities to sell surpluses from those stations on the export market during the period of time when our own load is growing to meet the capacity that we have added.

Again, we look at the opportunity to make export sales that would result in rates to our domestic customers being lower than they would be if we had to proceed with that development plan without export sales.

* (1140)

Mr. Leonard Evans: In other words, what Mr. Lambert is telling us is that you enter into a trade because both parties benefit, in this case NSP, and its customers are benefitting, Manitoba Hydro and its customers are benefitting, as Mr. Lambert has explained.

I often think that it would be great if we could also export—and I use the term in a general sense—outside of Manitoba to Canadian provinces, Ontario on the one side. I never thought of Saskatchewan as much of a customer for our exports because of the fact that they do have a lot of coal and they have some natural gas and so on.

I want to ask, just while we are on the matter of sales outside of Manitoba, whether the Hydro had ever considered offering—and maybe it has offered—sale of hydro to Saskatchewan, particularly with regard to the southeastern section of Saskatchewan where they are now involved in building a thermal plant, as I understand, and of course there is a tie-in with the Rafferty-Alameda Dam and so on. Would we have had enough power coming along from our expanded generating capacity to have met the needs of eastern Saskatchewan and therefore caused Saskatchewan not to have to enter into a thermal plant investment?

Mr. Lambert: To answer the question generally, we are in regular contact with the utilities to the south, east and west of us and from time to time we are in consultation with them, either because they make a request to us to see if we have something available, or because we indicate that we do have something available. From time to time, there are discussions with respect to the prospect of us selling them power. They look at that in the context of their alternatives and they make decisions in light of what we are prepared to offer them and what their alternatives are.

Mr. Leonard Evans: Mr. Chairman, specifically, did Manitoba Hydro at some point offer to sell power to Saskatchewan so that they would not have to proceed with a thermal plant in that area?

Mr. Lambert: I believe I am correct in saying that at the time that SPC appeared to be attempting to make a decision with respect to their next generation, we had some discussions with them and had indicated to them what we might be able to supply to them. They presumably factored that into their decision, but we did supply them with some information.

Mr. Leonard Evans: From our knowledge of costs of thermal productions, I do not think it is any great secret what a plant of a certain size, steam heat, using Saskatchewan coal, whatever, what the costs might be, had we any idea what our costs of power potentially being offered to Saskatchewan would have been compared to the costs of them producing their own power.

Mr. Lambert: To answer that question generally, we did give them some numbers in terms of what we felt that we could offer them power at. Subsequent to that, sometime later, they indicated that they were not interested in that offer. We are not sure of all of what went into their decision in terms of coming to that conclusion.

Mr. Leonard Evans: I appreciated coming to that conclusion, the Province of Saskatchewan have many considerations, industrial development uses, their own resources, etc. There are many factors. There are many down sides as well, of course, environmental damage from thermal production and so on, and the burning of coal. Just in terms of the cost, do you think Manitoba Hydro could have sold power to Saskatchewan at a cost lower than Saskatchewan will be required to undertake with this new thermal plant?

Mr. Neufeld: Mr. Chairman, that is purely a hypothetical question. I do not know what the cost of a thermal plant in Saskatchewan has to do with the question of Manitoba Hydro at this point. We are here to answer questions about Manitoba Hydro and not answer questions about the cost of thermal plants in Saskatchewan.

Mr. Leonard Evans: Mr. Chairman, the point is of course it has a bearing on the potential of future sales by Manitoba Hydro to Canadian provinces, including the Province of Saskatchewan. Here was an opportunity it seemed to me for Manitoba Hydro to undertake and do something that was rational in terms of electrical production in western Canada. This is why I am concerned. Of course we have another impact, and I do not know enough detail about this. The Rafferty-Alameda Dam project is now raising a lot of concerns in this province. To what extent would that have been affected if Saskatchewan did not proceed with the thermal generating station in southeastern Saskatchewan? That is the bearing on it, (a) on the future potential of exports by Manitoba Hydro; and (b) the impact on the environment of Manitoba.

Mr. Neufeld: Mr. Lambert has already indicated that the information with respect to hydro cost to Saskatchewan was provided to the Saskatchewan Power Commission, and they, with that information in hand, made their decision to put the Rafferty-Alameda Dam on the table at the Manitoba Hydro Committee hearings, I think, is at best unnecessary.

Mr. Leonard Evans: Mr. Chairman, very specifically, do Hydro officials have some idea what it would cost to produce power in western Manitoba, or eastern Saskatchewan, using a thermal plant of this size? I mean, this is not a big state secret. Anybody who knows anything about thermal generation has a ballpark figure as to what it would cost per kilowatt hour, or however you want to measure it, of producing power by thermal means in eastern Saskatchewan and which would not be much different, I would suspect, from western Manitoba.

Mr. Neufeld: Of importance is not does Manitoba Hydro know what the cost of thermal power production is; of importance is, do Saskatchewan officials make their decision with the knowledge of what the cost of power from Manitoba would be and I do not think we can prejudice what Saskatchewan has done. They have made their decision with the full knowledge of what the cost of energy from Manitoba would be and it is not up to us to judge whether or not they made the right decision.

Mr. Leonard Evans: I am not going to judge whether they made the right decision or not. That is their problem; they will have to live with it. I am simply asking, could we have sold electricity to southeastern Saskatchewan cheaper than they could have produced it or will be producing it by thermal power? That is all, it is just a straight question, because I do appreciate that there are other factors involved. I realize that and that is why it is so very difficult to develop electricity

production in Canada or any jurisdiction without general political socio-economic factors being involved. That is the reality of life.

* (1150)

Mr. Neufeld: It is not a decision that we can make over here. It is a decision they had to take and for us to interfere in another jurisdiction is I think not right.

Mr. Beatty: I do not know the answer to that question, Mr. Chairman, but we do know that costs of thermal production in southern Manitoba and the costs in southern Saskatchewan are quite different circumstances because they can do a mine-mouth, virtually a mine-mouth operation there. We do not regard Saskatchewan, I can say, as a likely target for export sales. It is not for that reason one of the areas we are concentrating on.

Mr. Leonard Evans: I can appreciate what Mr. Beatty said because the Lyon administration a few years ago had as a policy to try to sell Manitoba Hydro, would you believe it, to Alberta as well as Saskatchewan. Talk about bringing coals to Newcastle, I mean that was insanity but that was the policy as I understand it to try to—we were looking at selling Manitoba Hydro to Alberta, and for the life of me, from northern Manitoba to get it to northern Alberta cheaper than—when Alberta can produce it thermally using all their cheap gas, to me is just what started the question. But that was a serious policy position and one can look at Hansard, one can look at public documents at that time. So I can appreciate what Mr. Beatty has said. But I thought that perhaps that being right on the Manitoba border, there may have been some benefit that we may have been able to sell, at least in that area, at a rate cheaper than the Saskatchewan could have produced it thermally.

Let me ask a question then about Ontario because I thought that we had looked at not southern Ontario but at least northwestern Ontario as a potential for Manitoba power exports. Regrettably, I believe Ontario went ahead with the thermal plant in Thunder Bay, and maybe Mr. Beatty or someone could elaborate on this. Is there any potential now on the horizon for sales of Manitoba Hydro to northwestern Ontario?

Mr. Beatty: Yes, and we are in discussions with Ontario. I believe it is well-known that we did a five-year 200 sale last year to Ontario Hydro. We are currently in, what I would say, are really quite long-range discussions with them about stepping that up to a larger sale. If there is interest in the details of that, I can ask Mr. Lambert to comment.

Mr. Lambert: I probably cannot elaborate too much other than to repeat what Mr. Beatty has said.

Fairly recently within the last year or so we did make an arrangement with Ontario to sell them 200 megawatts. It was as a result of discussions with them and looking at their alternatives. Discussions are continuing presently with respect to what we might have available for them to meet their needs. They are looking

at that in the context of their alternatives. I just repeat, that as a general statement, we maintain contact with the utilities East, West and South of us on a regular basis with respect to opportunities that might accrue to all the utilities in terms of the opportunities to exchange power back and forth.

Mr. Leonard Evans: I have a few more questions on the rates, just to follow up on this.

I note in the last report for Manitoba Hydro-Electric Board, the year ending March 31, 1988, under the "President's Message," that Hydro did appear before the Public Utilities Board last February, that is February 1988, for the first time in a decade. "After reviewing all of the evidence, the board concluded that the rate increases implemented from 1986 through 1988 were justified and reasonable. The board also concurred with Manitoba Hydro's assessment of the need for adequate reserves as a cushion to ensure rate stability and predictability, given the risks of a hydraulic based operation." That is from page 5 of the report. So I think Hydro should be very satisfied of getting that commendation from the Public Utilities Board with respect to the rate increases '86 through '88.

I guess my question then is, because the Ministers and others referred earlier about going to the PUB, the management has not yet made a recommendation to the board on future rate increases but this will be coming up in November, December, when would the board of Hydro be in a position to go to the Public Utilities Board? When would the public expect to see this exercise take place?

Mr. Neufeld: That would depend on when Hydro management completes its review of their 1988-89 fiscal period, and would depend on when the Manitoba Hydro Board completes its review, and depending also on the recommendation that Manitoba Hydro brings forward. Then it is up to the Public Utilities Board. They would then take it to the Public Utilities Board. I think the membership of that board has not changed from the last time. Presumably, they would have some knowledge of what went on in the year before and would act accordingly.

Mr. Beatty: Under the present rules that have been in place for some time, it would be triggered by an appeal.

We would, as the Minister says, go through our process which would hopefully have recommendation in the hands of our board in December and of course the Government is involved at that point. We would have to see the role of the Public Utilities Board, I have to assume, remain intact as it is. Our appearance there would be triggered by an appeal, but if the Government should decide on a larger or a different role for the board, which I understand is being considered, then we would have to play by those rules if and when they are established.

Mr. Neufeld: I think Mr. Evans was out of the committee room when Mr. Driedger asked the question, but I have indicated that the Minister of Finance (Mr. Manness)

will be bringing in legislation on the Crown corporation accountability and that will include some details as to the Crown corporation's appearance before the Public Utilities Board. Until that is brought in, I guess we will have to wait for that to be brought in for further information.

Mr. Leonard Evans: I see, so until such legislation is brought in and passed, we will not know when the Hydro will appear before the PUB. As the rules stand now, Hydro does not have to appear before the PUB unless there is an appeal by some group or unless the Government, I suppose, requests it to go through that process. I am thinking of the event of the legislation not being passed for whatever reason for some time, that is another possibility that the Government—and I might ask the Minister then if that would be the intention—if for whatever reason the legislation was not put into place, was not passed, whether the Government would then request the Hydro Board to go to the PUB regardless?

Mr. Neufeld: That is hypothetical and I do not think I would care to comment until that eventuality occurs.

Mr. Leonard Evans: I wonder if the management could give us an idea of the current load growth of the corporation. I know it is affected by the state of the economy obviously. The faster the economic growth rate, the higher the demand is for hydro output, but what has been the load growth in the last—just to put it in perspective—what has been the load growth in the last couple of years, what is it now, what do we anticipate it to be in the next two or three years?

* (1200)

Mr. Beatty: We did have a presentation, Mr. Evans, at the last meeting of this committee on the load forecast. Our current forecast anticipates 2.3 percent on a weather-adjusted basis as an average for the next 10-year period, which is the period of the integrated financial forecast. That is almost the same as the forecast last year on a weather-adjusted basis. It is virtually the same amount of energy delivered over the 10-year period.

Mr. Leonard Evans: Just to follow up on that, Mr. Chairman—

Mr. Chairman: Excuse me, Mr. Driedger.

Mr. Herold Driedger: I have some questions basically on the operating administration costs, if you do not mind. I would like to move on a little bit from the last line of questioning since actually we have covered a good deal of that particular direction already in a previous committee meeting.

Mr. Leonard Evans: Just on a point of order, Mr. Chairman.

Mr. Chairman: A point of order, Mr. Evans.

Mr. Leonard Evans: I have about two, maybe three questions just auxiliary to this and then maybe Mr.

Driedger could then carry on. It will only take a few minutes.

Mr. Herold Driedger: On the same point of order, I think that this has been covered. I think I would like to continue with a new line of questioning.

Mr. Chairman: I would like to thank Honourable Members for their input. I have recognized Mr. Driedger.

Mr. Herold Driedger: Yes, on operating administrative costs, you have this line item in the Annual Report. Could you please tell me what is the major factor in the utilities operating administration costs?

Mr. Beatty: I think we will probably spend some time in this area, Mr. Chairman, and I would ask Mr. Brennan to deal with that item.

Mr. Brennan: This is an all-inclusive item. It includes all the cost of operating and maintaining our facilities, delivering service throughout the province, and it also includes the lease payment to the federal Government on the D.C. transmission line as well as any other overhead costs.

Mr. Herold Driedger: Is that largely labour, largely human resources?

Mr. Brennan: A good percentage of that is labour. I can provide that for you if you would like.

Mr. Herold Driedger: The reason I ask is, if we take a look at the increase in operating administration costs as they have gone up through the years, in the past 10 years—I cannot actually give an average because we did have a high degree of inflation in the early period of time and, as inflation dropped, we also saw a decrease in the increase of operating administrative costs, but in the past four years, there have been rather significant increases despite that fact: '85 over '84 is a 5 percent increase; '86 over '85 is a 9 percent increase; and then in the next two years, 7 percent increases each.

We do not have a corresponding increase in actual manpower or human resources increase that corresponds to that at all. So I was wondering if you could perhaps explain to me why there would be such an increase in the operating costs when the human resource increase actually does not increase at that same rate or at that same level.

Mr. Brennan: First of all, I would like to reaffirm what Mr. Beatty said earlier and that was that when we compare ourselves with other utilities in Canada, we find ourselves comparing quite well in this area.

Having said that, as our plant gets older, certainly our maintenance costs go up and we are faced with that. In addition to that, in the last two years, we have had to incur additional costs associated with operating the thermal plants as well. There is another component that has been going up relatively significantly more recently and that is the payment on a D.C. line. It is now going up at about \$2.5 million a year, which is a

pretty significant amount on the base, and in the '88-89 year we are still not paying the interest on that particular one, even with that rate increase.

Mr. Herold Driedger: Just a point of clarification, you mentioned the lease payments on the D.C. line. How does that—could you explain to me the—I guess I just do not understand that whole process.

Mr. Brennan: When the original decision was made to go to the Nelson, one of the contributing arrangements that allowed the province to do that, or the Province of Manitoba Hydro to do that, was an agreement that was reached between Manitoba and Canada whereby they would build the D.C. line that is now providing the output for three plants, or will be once Limestone is in service. We have made some modifications to the terminal stations at each end, but the basic agreement provided for some terminal facilities as well as the D.C. line itself. The arrangements to pay that was over a term of 45 years with an interest rate of 5 5/8 percent.

Mr. Herold Driedger: You say the interest rate will begin—You have not yet made any payments on interest, is that correct?

Mr. Brennan: At this point, we are not paying the total interest component. The total lease obligation is still going up.

Mr. Herold Driedger: Another question with respect to—

Mr. Brennan: I can just qualify that a little bit, maybe. It might be helpful. Starting in '89-90, we start amortizing it in straight equal payments.

Mr. Herold Driedger: All right then, focusing on the two other aspects of the operating costs, you referenced thermal plants. Right now the costs are higher and this maintenance would be on the older plants on the Winnipeg River?

Mr. Brennan: It is the entire maintenance of our entire system which would include generation, transmission and distribution facilities as well.

Mr. Herold Driedger: If we just take those two—I may want to come back to that. I want to think about that answer for a while. Are the flood damage and mitigation costs that Hydro has had to assume considered as part of your operating costs?

Mr. Brennan: Any costs associated with mitigation resulting from the impacts of the construction of Lake Winnipeg regulation or Churchill River diversion are capitalized.

Mr. Herold Driedger: I guess I would like to just, again not being an accountant, then I understand that to be—capitalized to me would be part of the long-term debt?

Mr. Brennan: We would consider it to be part of the cost of the facilities, either Lake Winnipeg Regulation

or Churchill River Diversion and amortize that cost and recover it from the ratepayers over the life of those facilities.

Mr. Herold Driedger: Then along that same line, how many outstanding claims or claimants are there yet regarding mitigation, regarding damage from displacement or whatever on these hydro developments in the North?

Ms. Linda Jolson (Vice-President, Corporate Relations): Mr. Chairman, since 1979, Manitoba Hydro has processed over 2,430 claims from individuals who allege adverse impacts. We have settled 2,199. Approximately 92 of the individual claims have been rejected with the remainder still under review. That is in total from the diversion and the regulation.

In addition, the bands and the Northern Flood Committee have filed approximately 147 major claims with the arbitrator, 135 of which involve Manitoba Hydro and which effectively umbrella all the obligations within the entire agreement. Seventy-three of the major claims have been settled without need of arbitration with six receiving review by the arbitrator and the balance of the claims are active and have yet to be addressed.

Mr. Herold Driedger: Do you anticipate that there will be any more claims made?

Ms. Jolson: No. There was a limitation in the agreement and all claims had to be filed within five years of the agreement being signed. If I recall, I believe that was 1983.

Mr. Herold Driedger: I think this question probably should be directed at the Minister. There seemed to be some indications that there are still some, at least damage claims or mitigation claims being put forward by different band groupings. Is there any way that you, as the Minister, may be able to facilitate resolving these claims, other than through what the process that was determined by the—I guess Ms. Jolson is referring to the Northern Flood Agreement?

* (1210)

Mr. Neufeld: The claims arising under the Northern Flood Agreement are being negotiated. The Manitoba Government is putting in place a negotiator on its behalf. I guess just yesterday or the day before—late last week, I spoke with Mr. Beatty and Manitoba Hydro will be putting in place a negotiator. We met with the bands on Friday, I believe it was. The hope is that negotiations will now proceed fairly quickly.

Mr. Herold Driedger: These negotiations that you are referring to, Mr. Minister, are outside of the flood agreement or are they within the flood agreement?

Mr. Neufeld. They are part of the flood agreement.

Mr. Herold Driedger: I understand that those particular agreements were referenced in the report that Ms. Jolson made. Are there any other claims being made

that are outside of this flood agreement, either by bands that did not file on time or perhaps who have determined, by whatever reason, that they wish to make their claim retroactively?

Mr. Neufeld: The chiefs did not indicate that there were any additional claims; that was only last week. I expect and hope that the claims have all been filed. It is just a matter of negotiating those settlements.

Mr. Herold Driedger: So then we can actually assume that the claims have a finite number and that this is just a matter now of cleaning up the negotiating and coming to a settlement of whatever the comprised solutions may be?

Mr. Neufeld: It is that finite number that is going to be negotiated.

Mr. Herold Driedger: So the number of claims then yet has not been?

Mr. Neufeld: The number of claims, yes; the amount of those claims, no.

Mr. Beatty: The Minister is correct.

It is Manitoba Hydro's policy to ensure that all of those who are adversely affected by our projects are dealt with hopefully fairly and equitably. The Minister has been referring to those claims within the context of the Northern Flood Agreement. I am not sure if the committee Member is trying to get at mitigation outside of that agreement in which case I would ask Ms. Jolson to comment on that if that is what you are referring to. I think the Minister has explained the agreement situation.

Mr. Driedger: Just to clarify that, yes. I am just trying to determine where we are at with respect to I guess all claims. There are some, I think, that fall outside of the Northern Flood Agreement. These also need to be mitigated, do they not?

Ms. Jolson: We have a policy to respond to all individuals or groups that are affected by projects. We deal with them on an individual basis. We have paid compensation over the past number of years to those kinds of groups, persons and groups not affected by the Northern Flood Agreement but within the northern boundaries.

Perhaps what you are referring to is continued concerns raised by groups that were originally affected by the diversion. I believe the Province of Manitoba assumed the responsibility from Manitoba Hydro to look after those issues.

Mr. Herold Driedger: What I am trying to drive at here is essentially what are the total costs for delivering the cost of hydro or the energy to Manitobans as a whole? These mitigations that were just referenced at the last point here by Ms. Jolson, these costs then have been absorbed by the provincial Government, are they, Mr. Minister?

Mr. Neufeld: I think what was mentioned was new claims that come about are absorbed by the Manitoba

Government. The Northern Flood Agreement has three parties involved; that is the Canadian Government, the Manitoba Government and Manitoba Hydro. The end result, who pays, will be determined by the committee.

Ms. Jolson: Just to clarify what the Minister is saying, perhaps I did not provide you with the correct information.

With new claims arising that are outside of the parameters of the Northern Flood Agreement, Manitoba Hydro does have a policy that allows us to compensate for damages arising. To March 31, 1988, we have expended approximately \$31.3 million for remedial work programs and compensation payments to the non-status communities that were impacted by the Churchill River Diversion Project and Lake Winnipeg Regulation. That is in addition to the amounts that have paid out under the Northern Flood Agreement.

It is some of the older claims that I believe the Province of Manitoba undertook the responsibility for, but that was some years ago and there may be still concerns arising from those.

Mr. Herold Driedger: From what Mr. Brennan mentioned and I think what I have heard here is that the mitigation costs are factored into the cost of service analysis. Is that correct?

Ms. Jolson: Yes, it is.

Mr. Neufeld: I think that requires some clarification. My understanding is the costs that have been incurred have been factored in. They have been added to capital, I believe. The costs that have not yet been incurred will be factored in as they are incurred. Is that right, Mr. Brennan?

Mr. Brennan: Yes, the Minister is correct. Any costs that we have incurred resulting from the construction of the facilities are charged to the cost of those facilities and charged to the customer over the life of those facilities.

Mr. Herold Driedger: Okay. So now what we have here, we have got the mitigation costs which we now know about. They are added to the long-term capitalization costs of the utility and then essentially paid for the way any other capital expenditure would be paid for.

In making decisions for future hydro developments, is there any particular formula that you may use to set up either a contingency mitigation fund, or a sort of anticipated cost of mitigation? I understand that the cost of service means actual costs incurred, but to present the next case scenario you sort of need to have some degree of anticipation as to what those costs will be as well?

Mr. Brennan: Our financial forecasts provide for existing mitigation claims into the future. The impacts of any mitigation required in future projects would be considered as part of that alternative.

Mr. Herold Driedger: Would you just clarify that answer for me, please.

* (1220)

Mr. Brennan: The projected cost of the claims that Ms. Jolson talked about are included in our financial forecast. In the case of new mitigation claims resulting from new projects, they would be considered part of the cost of that alternative and would impact the decision as to what is the next best source of generation for us at that particular time.

Mr. Neufeld: I might ask for some clarification for myself and probably for Mr. Driedger as well. The 62 outstanding claims which you mention in Note 7(b), you indicated that they were included in your financial forecast. Are they included in the balance sheet?

Mr. Brennan: No, they are not, they are a continuing liability.

Mr. Herold Driedger: That was one of the things I was getting at. I guess I need to have an explanation then once again as to cost-of-service analysis, because what I hear Mr. Brennan saying is that new mitigation claims, if any, are included in future cost projections but this is not part of the cost-of-service analysis, which actually deals with finite numbers. Am I correct in that?

Mr. Brennan: The cost-of-service analysis is based on historical costs as recorded, or embedded costs as recorded in the actual year's operations. As future mitigation costs are paid or past ones have already been paid, or to the extent that they have already been paid, they will be included. Future ones will be included in terms of interest and depreciation in the future.

Mr. Herold Driedger: If we take a look at the next two hydraulic generating stations that we have talked about in the last several hours, Conawapa or Wuskwatim, is there any anticipated mitigation either within or without, I guess, the Northern Flood Agreement that is different between Conawapa or Wuskwatim? I mean, I know that a previous line of questioning has pointed out that the environmental costs of one station over the other are different, and I am not sure in that particular line of questioning if the environmental costs were included, just environment without the social costs or environment including the social costs. That I am not sure of, so right now I am asking what is the difference in—I would like to include socioeconomic, pardon me, socioenvironmental costs in this particular difference between Conawapa or Wuskwatim.

Ms. Jolson: We have started an environmental impact assessment on Conawapa, and we have data that we

have collected from Limestone that in fact serves as some good base data for Conawapa, so we have a good data base to proceed on. With respect to Wuskwatim, we are just beginning and I would be speculating, I think, to try to compare them. But obviously that is the reason why we do environmental impact assessment, to try to get a reading of what measures we might have to put in place and what the costs will be.

Mr. Herold Driedger: I think now I am entering the realm of speculation. I think what I would like to just determine, the environmental impact assessment that you referenced, Ms. Jolson, the impact analysis is that, if I hear you correctly, you did state "social costs." That means mitigation costs for people who are adversely affected by that development.

Ms. Jolson: We are in the process of determining both for Conawapa and Wuskwatim what detailed study plan will be. It would be preliminary for me to say what the elements would be. I know, for example, there are fisheries program, there are wildlife programs, there is heritage, there are meetings with affected parties in the area, for example, the Fox Lake Band and the Northern Flood Committee bands with respect to Conawapa. But, because the definitions with respect to social impacts can be fairly broad, I would prefer not to answer that at this—I would prefer to take it under advisement, I guess, and perhaps wait till we get the detailed study plan outlined.

Mr. Herold Driedger: I definitely want to ask some more questions along here but I, at this moment in time, have run out of steam. I think I would probably want to sit back and reflect a little on this.

Mr. Leonard Evans: I have other questions to ask on rates—

Mr. Chairman: Yes, I am wondering, given the time, what is the—

Mr. Leonard Evans: I would move that we call it 12:30 p.m.

Mr. Chairman: Shall the 1987 and/or the 1988 Annual Reports of Manitoba Hydro pass? This committee considering these Annual Reports shall meet again at 10 a.m., October 27. The hour being 12:30 p.m., committee rise.

COMMITTEE ROSE AT: 12:25 p.m.