

Third Session - Thirty-Ninth Legislature
of the
Legislative Assembly of Manitoba
Standing Committee
on
Crown Corporations

Chairperson
Mr. Daryl Reid
Constituency of Transcona

Vol. LXI No. 6 - 6 p.m., Tuesday, November 17, 2009

ISSN 1708-6604

MANITOBA LEGISLATIVE ASSEMBLY
Thirty-Ninth Legislature

Member	Constituency	Political Affiliation
ALLAN, Nancy, Hon.	St. Vital	N.D.P.
ALTEMEYER, Rob	Wolseley	N.D.P.
ASHTON, Steve, Hon.	Thompson	N.D.P.
BJORNSON, Peter, Hon.	Gimli	N.D.P.
BLADY, Sharon	Kirkfield Park	N.D.P.
BLAIKIE, Bill, Hon.	Elmwood	N.D.P.
BOROTSIK, Rick	Brandon West	P.C.
BRAUN, Erna	Rossmere	N.D.P.
BRICK, Marilyn	St. Norbert	N.D.P.
BRIESE, Stuart	Ste. Rose	P.C.
CALDWELL, Drew	Brandon East	N.D.P.
CHOMIAK, Dave, Hon.	Kildonan	N.D.P.
CULLEN, Cliff	Turtle Mountain	P.C.
DERKACH, Leonard	Russell	P.C.
DEWAR, Gregory	Selkirk	N.D.P.
DRIEDGER, Myrna	Charleswood	P.C.
DYCK, Peter	Pembina	P.C.
EICHLER, Ralph	Lakeside	P.C.
FAURSCHOU, David	Portage la Prairie	P.C.
GERRARD, Jon, Hon.	River Heights	Lib.
GOERTZEN, Kelvin	Steinbach	P.C.
GRAYDON, Cliff	Emerson	P.C.
HAWRANIK, Gerald	Lac du Bonnet	P.C.
HICKES, George, Hon.	Point Douglas	N.D.P.
HOWARD, Jennifer, Hon.	Fort Rouge	N.D.P.
IRVIN-ROSS, Kerri, Hon.	Fort Garry	N.D.P.
JENNISSON, Gerard	Flin Flon	N.D.P.
JHA, Bidhu	Radisson	N.D.P.
KORZENIOWSKI, Bonnie	St. James	N.D.P.
LAMOUREUX, Kevin	Inkster	Lib.
LEMIEUX, Ron, Hon.	La Verendrye	N.D.P.
MACKINTOSH, Gord, Hon.	St. Johns	N.D.P.
MAGUIRE, Larry	Arthur-Virden	P.C.
MARCELINO, Flor, Hon.	Wellington	N.D.P.
MARTINDALE, Doug	Burrows	N.D.P.
McFADYEN, Hugh	Fort Whyte	P.C.
McGIFFORD, Diane, Hon.	Lord Roberts	N.D.P.
MELNICK, Christine, Hon.	Riel	N.D.P.
MITCHELSON, Bonnie	River East	P.C.
NEVAKSHONOFF, Tom	Interlake	N.D.P.
OSWALD, Theresa, Hon.	Seine River	N.D.P.
PEDERSEN, Blaine	Carman	P.C.
REID, Daryl	Transcona	N.D.P.
ROBINSON, Eric, Hon.	Rupertsland	N.D.P.
RONDEAU, Jim, Hon.	Assiniboia	N.D.P.
ROWAT, Leanne	Minnedosa	P.C.
SARAN, Mohinder	The Maples	N.D.P.
SCHULER, Ron	Springfield	P.C.
SELBY, Erin	Southdale	N.D.P.
SELINGER, Greg, Hon.	St. Boniface	N.D.P.
STEFANSON, Heather	Tuxedo	P.C.
STRUTHERS, Stan, Hon.	Dauphin-Roblin	N.D.P.
SWAN, Andrew, Hon.	Minto	N.D.P.
TAILLIEU, Mavis	Morris	P.C.
WHITEHEAD, Frank	The Pas	N.D.P.
WOWCHUK, Rosann, Hon.	Swan River	N.D.P.
<i>Vacant</i>	Concordia	

LEGISLATIVE ASSEMBLY OF MANITOBA
THE STANDING COMMITTEE ON CROWN CORPORATIONS

Tuesday, November 17, 2009

TIME – 6 p.m.

LOCATION – Winnipeg, Manitoba

CHAIRPERSON – Mr. Daryl Reid (Transcona)

VICE-CHAIRPERSON – Ms. Marilyn Brick (St. Norbert)

ATTENDANCE – 11 QUORUM – 6

Members of the Committee present:

Hon. Ms. Marcelino, Hon. Ms. Wowchuk,

Mr. Borotsik, Ms. Brick, Messrs. Cullen, Dewar, Graydon, Jha, McFadyen, Reid, Saran

APPEARING:

Hon. Jon Gerrard, MLA for River Heights

Mr. Larry Maguire, MLA for Arthur-Virden

Mr. Bob Brennan, President & Chief Executive Officer, Manitoba Hydro

Mr. Victor Schroeder, Chairman, Manitoba Hydro-Electric Board

MATTERS UNDER CONSIDERATION:

Annual Report of the Manitoba Hydro-Electric Board for the fiscal year ending March 31, 2007

Annual Report of the Manitoba Hydro-Electric Board for the fiscal year ending March 31, 2008

Annual Report of the Manitoba Hydro-Electric Board for the fiscal year ending March 31, 2009

* * *

Mr. Chairperson: Good evening, everyone. Will the Standing Committee on Crown Corporations please come to order.

This meeting has been called to consider the Annual Reports of the Manitoba Hydro-Electric Board for the fiscal years ending March 31st, 2007, March 31st, 2008, and March 31st, 2009.

Before we get started, are there any suggestions from the committee members as to how long we wish to sit this evening?

Mr. Cliff Cullen (Turtle Mountain): I know we certainly have a lot of questions on our side of the House. I'm not sure, it appears that Manitoba Hydro

will be making a presentation tonight. We would certainly hope that maybe in the presentation today—we had quite a lengthy presentation back June 1st—hopefully, we could just hit the highlights subsequent to that June 1st meeting. Hopefully we don't have to go through that whole process we went through back in June, so if Mr. Brennan would help us out on that—in that regard—it would certainly be beneficial to our side and, I'm sure, to all those that are here tonight.

We do have a lot of questions, though; we would be prepared to sit well into the evening to address, if you would, all the questions that we have tonight.

Mr. Chairperson: Any other comments from committee members?

So does the committee then wish to sit to a certain hour and then review at that point in time, and if so, could a member of the committee please make that suggestion?

Mr. Gregory Dewar (Selkirk): I suggest we sit till nine and then revisit it then.

Mr. Chairperson: It's been recommended that this committee sit till 9 p.m. and then review at that point in time. Is that the will of committee?

Some Honourable Members: Agreed.

Mr. Chairperson: Agreed? Thank you.

Some Honourable Members: No.

Mr. Chairperson: Sorry. Mr. Cullen?

Mr. Cullen: We'd like to sit till 10 o'clock if we could and review at that time.

Mr. Chairperson: 10 p.m. An amendment that we sit until 10 p.m. and then review at that point. Is that the will of the committee? *[Agreed]* Thank you to committee members—10 p.m. we'll sit till and then we'll review at that point in time.

Are there any suggestions from committee members as to which order we review the annual reports?

Mr. Cullen: Historically, we've been able to review the reports in a global manner. I'm hoping that we would be able to do that again tonight. I'm sure with the presentation there will be additional questions

arise out of that presentation. So I think if we could keep the conversation global, it would be much appreciated on this side.

Mr. Chairperson: It has been suggested that this committee review the reports in a global manner. Is that agreed? *[Agreed]*

We'll now proceed. Does the honourable minister responsible for the Manitoba Hydro-Electric Board wish to make an opening statement, and would she also please introduce her officials with her here this evening?

Hon. Rosann Wowchuk (Minister charged with the administration of The Manitoba Hydro Act): Mr. Chairman, because there is going to be a presentation that Mr. Brennan is going to outline on the issues that—I'm not going to take the time to make a lengthy opening comment, but I would like to introduce Mr. Vic Schroeder, who is the chairman of the board, and Mr. Bob Brennan, who is the president and CEO of Hydro.

Mr. Chairperson: I thank the honourable minister for the opening statement.

Does the critic for the official opposition have an opening statement?

Mr. Cullen: I thank the minister for her brief comments. Just a note, I know Grand Chief Morris Shannacappo is in the audience today, and I guess there's no provisions allowed under our rules here to have the grand chief make a presentation tonight. I wonder if there's a will—I know the grand chief has some issues he would like to raise with the minister and perhaps Manitoba Hydro.

* (18:10)

I'm wondering if there is a will that the grand chief would maybe establish a meeting with the minister, and there might be an opportunity for the new minister to get up to speed on some of the issues relative to the First Nations community.

Ms. Wowchuk: Mr. Chairman, I've always—often operated on a very open-door policy and I'm willing to meet with people, and, in this case, if Chief Shannacappo and his group would be—would want to sit down with me and with members, with the CEO or the chairman of the board, if—I would be happy to arrange that meeting.

Mr. Cullen: Yes, I thank the minister for that.

Mr. Chairperson: I thank the honourable member for the opening statement.

Do the representatives of Manitoba Hydro wish to make an opening statement, or did you wish to proceed directly to your presentation?

Mr. Bob Brennan (President and Chief Executive Officer, Manitoba Hydro): Thank you, Mr. Reid.

Seeing as we were only here a couple of months ago, I agree with you that what I was proposing to do was just touch on some of the things that have changed since that time. So it—I don't think it'll take me longer than 10, 15 minutes. Okay?

Mr. Chairperson: Hold on, Mr. Brennan, please.

Is there leave of the committee to allow for a short presentation? *[Agreed]* Thank you.

Mr. Brennan, please proceed, sir.

Mr. Brennan: Okay. This is what I propose to go through. It's—some of them are only one slide, too, so that it shouldn't take us very long.

The first one is the one I always like to go through. It's somewhat of a commercial whereby it indicates Manitoba Hydro's rates are pretty well the lowest in the country and they continue to be not only by Manitoba Hydro's surveys, but by other people's surveys as well.

The first one is a comparison that was made up by Hydro-Québec. It's a residential rate for 2008 and it's a general tariff, and, as you can see, Winnipeg rates as compared to all the others on the graph are the lowest.

This is an industrial tariff, and on our industrial rates you can see that the difference is extremely significant.

This is the same graph I showed you last time, and it compares the reliability of Manitoba Hydro's system compared to the average domestic price of electricity. So the—I guess the idea is to get as close to zero on both indexes of the graph. Manitoba Hydro is the lowest on the graph, and the second lowest one to us in terms of reliability—there's one lower than we are in terms of reliability. The difference is the price is twice as high.

And this is a residential monthly bill, a recent one. It's a 2009 survey, May the 1st, so at any particular point in time it reflects rate increases. Some are current and some are not current. In this case, Manitoba Hydro had one on April 1st.

This is more of an average use by electric heat customer, but it shows that, once again, Manitoba Hydro's bill is the lowest in the country.

This is a commercial bill, and this is something like a small grocery store, convenience store, floor shop, something like that and, once again, you'll see that Manitoba Hydro is significantly lower. If you compare it to New Brunswick, it's half the price.

And this is a larger industrial customer. We have a couple of customers that are relatively close to this particular size, and the bill for 31 million kilowatt hours in a month with a demand of 50 megawatts comes out to over a million dollars a month in Manitoba. And you can see, if it was in B.C., it would be 1.231 and if you get to Ontario, it's \$2.6 million. So it's a significant link.

This one I put in recently. We just got the 2008 results, and the 2008 results are the same as the 2007, but we only got a preliminary look at it and they asked us not to use it. But it's virtually the same, but it shows that customer satisfaction with Manitoba Hydro based on the index that J.D. Power uses—they're a research company that makes their money by basically selling information to people in that industry. They're quite prominent in the automobile industry. But, in any event, this indicates that Manitoba Hydro's got the highest satisfaction as well.

A little bit about Wuskwatim, where we sit with Wuskwatim. As you know, construction's well under way. The first concrete was poured early in the spring. The work force right now is just over a thousand people up there, and the first unit's expected to be in service in late 2011. Since the project started we've hired 3,135 people, of which 46 percent have been Aboriginal.

A little bit about wind. The private wind farm that we've worked out an agreement with has been working now for four years. It's been working extremely well. The load factor is around 40 percent. Some months it could be over, some months it could be under, but it's pretty consistent. So, in a complete year you know that you're gonna get around 40 percent of energy. You just don't know when you're gonna get it.

As you know, we mentioned before that we went out for 300 megawatts. We got 17 different proposers, of which there is 84 different proposals. Brown & Babcock appear to us to be the most attractive. As you are aware, they had financial

problems with their parent company, and they sold their North American operations to Pattern Energy. We've been dealing with them and are virtually complete with the power purchase agreement. They've looked at the size of it and have come to the conclusion that, from their perspective, 138 megawatts is best for them.

Major transmission: This is a DC line coming down the west side of the lake where we absolutely do require this for the reliability of our system. It's absolutely imperative. We've now gone through two rounds of consultations on the line. We are now starting the third round after we've come to the point where we have three corridors identified, and these are wide corridors. After the third round, we'll come up with one corridor, after which we'll go through and talk to people in the fourth round of consultations, and at that point, come up with a line within that corridor, and that'll be our proposed and recommended line.

A little bit about the office project. Right now we have 1,700 employees within the building and we got some more to come in yet. Our purchasing department and our public affairs division still have to move in. We've had our grand opening, and from my perspective, I've been in the building now for about two months, and it's a very, very nice building to work in. I really quite enjoy it.

I spent an awful lot of time, as most of you know, in the old building and I had, over an extended period of time, had four different offices on the—it'd be the northwest side of the building on two different floors, so four offices in excess of 40 years.

This is just a list of all the various awards the building has got. Most of the awards come after the building's complete, so we expect to get some more. The most recent one was the Council on Tall Buildings and Urban Habitat where we were in the running for the best tall building in the world. We did not achieve that, but we got it for the Americas.

* (18:20)

This is the last item, and it's the details from our perspective on the allegations against Manitoba Hydro regarding the risk associated with the operation of our system. Post to 2004, the export market opened up quite dramatically for us. We were able to sell to individuals that didn't have transmission to their operation, and so people could buy transmission from other utilities and virtually not

own any assets of any sort and it allowed us to get a much more attractive rate for the power we're selling.

We—after we went through the drought in 2004, we started looking at some of the risks associated with the opening of the new market and there was risks that Manitoba Hydro, in selling to very few customers, didn't have before. First of all, we have this whole issue of transmission and making sure we're able to obtain transmission that somebody else owned in the States. The second thing was a credit risk from some of the people we were selling to and we wanted to make sure we weren't selling to Enron or something like that, you know.

And what we wanted to do is come up with some kind of a formula that would take all these risks and throw them together and come up with some kind of an index or formula for us to use, and we went to the outside market to get some help to do that and to develop some policies associated with that. If we're going to use some kind of a different method than we traditionally did, by looking at individual risk, then we had to come up with some way to make that evaluation.

We hired a contractor in 2006—by September 2006, it was to end at the end of December of 2006. We experienced some difficulties. There was little progress made on what we were trying to do. The information that people were—that the contractor was taking, the contractor was deeming to be proprietary information was our information, so there's issues associated with that, and, generally, it just wasn't working out for us and Manitoba Hydro advised the contractor the contract would not be extended.

On December 4th we got a report. The report ignored the original assignment and dealt with matters that the contractor was not asked to look at and it didn't explain to us how the conclusions were reached. The contractor also recommended the purchase of some software and the contractor had some solution for us to consider.

Some observations, more than anything, the contractor claimed that some of our staff supported their opinions. At that point we wanted to make sure that if there was people that had this, they could come forward and there would be no retribution or anything like that. And I think it was April of 2007, I wrote that the main people that were involved in dealing with the contract should come forward and they could come forward to myself and I'd look at some of these issues.

We also asked the people involved in the management of this process for their opinions on the findings and they did not agree with the findings. This left senior management in a position where they'd had some issues on the table and management not agreeing with them, the people in operating the system, and we then wanted to get the contractor to take a look at her report, or the contractor's report, and give us analysis of it in a way that we could understand. To do that was going to cost us more money and we agreed to pay that.

We also paid to arrange for a meeting in January of 2008 of which I was at the meeting and some of our senior management was at the meeting. It was an all-day meeting with the contractor to listen to the issues. As I said, we wanted the contractor to explain the findings and to give us an explanation of why these conclusions had been reached.

We weren't satisfied after the meeting so we then asked an external firm to take a look at it, ICF Consulting, and they come back and took a look at the findings and—well, we didn't—we asked them to review issues, not the contractor's report, and the issues that the contractor—or that ICF looked at were certainly opposed to the findings found by the contractor.

We had other issues as well we wanted to look at, and both the board, the audit committee and Manitoba Hydro and senior management certainly wanted to get to the—wanted to make sure absolutely no conclusion of any sort was raised by the person who was making the allegation had any substance. So we're in the process—or we have hired KPMG to do a detailed review of all the issues, and we asked the public utility board and the Crown Corporations Council to review the terms of reference that we're giving KPMG, and they've agreed with them.

I would like to talk about the allegations of blackouts. Manitoba Hydro has really taken, in my opinion, the job of running Manitoba Hydro very, very seriously, and I think—I'm pretty confident when I say we don't manage the system in any way that would have a blackout. We know that without a, you know, another line coming down from the north that the system is at risk. We got 75 percent of all our power coming down one set of transmission lines, and that is a major risk to us. And we've known that. We've known that for a long time. At one point—it's—at one point it was just too costly a thing for the corporation to undertake. But as prices have gone up, as well as the risk going up because our own loads

are ongoing, and there's more and more power that we are not able to supply should we lose a line, and the price of losses on the line having some value that it is made it much more easier for us to accommodate, but it is a serious issue. We know about that, but we don't think there's an awful lot of other risks in the system.

We've planned our system based on drought. We know that when we enter into an export contract, we provide for it. So, I'm confident. We develop our export contracts so that if we got a major emergency we don't have to supply the export contract. We arrange for the ability to buy power under those contracts should we need it in the case of a drought, and we make sure we have transmission lines in place to import power as well. So, we've—I think I have a hard time with people saying we could have a blackout.

Now, I did express my concern about the—the transmission line. The drought, we know—right now our whole financial forecast is based on average flows. So when we say that we need a rate increase of 2.9 or whatever the number is all the way through, that is based on us having average flows and counting on anywhere from 30 to 40 percent of total revenue coming from the export market. So the export market keeps our rates down each and every year. If you get a drought, which you're gonna get, you're gonna get it once or twice every 10 years, then we gotta have equity to take care of that. And Manitoba Hydro's built up its equity. When I became the president there was less than a hundred million dollars in total equity within the company. We're now approaching \$2.3 billion, which is the amount, if we went through a drought that we experienced in the 18–1989 period, over a five-year period, our equity could almost take care of it.

* (18:30)

So I think—I think we've taken care of that. We also handled the drought reasonably well. There's lots of things you can do in hindsight, but, really, that year was pretty frustrating for most staff at Hydro, and I think I was no exception. As a matter of fact, I found it horrible, when we're experiencing the drought at the same time gas prices were going up, so the cost of anything we purchased was increasing dramatically as well.

Some of the conclusions I got: Manitoba Hydro has the lowest electricity rates in North America. We have the highest customer satisfaction in Canada. Our reliability of our system's the highest on the

continent, and certainly in Canada. We've gradually been improving our safety record. Our financial position's been the strongest ever. Our record, in terms of hiring Aboriginal people and trying to work with Aboriginal people and doing what we can, is better than any other utility in the country.

Our energy conservation programs are No. 1 as well. And certainly Manitoba Hydro, during the '70s, did create an awful lot of environmental damage, at least what we'd consider to be damage today, and Manitoba Hydro would not do that today. But we've been working hard to make sure that Manitoba Hydro's a very responsible company environmental-wise.

I think in—certain—in my time, I can definitely say that management of Manitoba Hydro, as well as the board, have always wanted to make changes when changes were good for Manitoba Hydro, and I don't think that's any different today than it was 20 years ago when I became the president. Thank you.

Mr. Chairperson: Thank you, Mr. Brennan, for your presentation, sir.

Before I get to questions from the committee members, does the committee wish to have this PowerPoint presentation included in the *Hansard* of tonight's proceedings? *[Agreed]* Thank you.

The floor is now open for questions.

Mr. Hugh McFadyen (Leader of the Official Opposition): Thank you, Mr. Brennan, for the presentation, and in particular the brevity of it, restraining your comments to the developments since our last meeting in June.

My opening question is to the minister on matters of policy in connection with Manitoba Hydro, recognizing the minister has been responsible for this portfolio for only three months, but as a—member of Treasury Board and a member of Cabinet, has certainly been involved in the general oversight of Manitoba Hydro. And I think it would be fair to say that the topic of Manitoba Hydro has been a widely discussed one around the province for the better part of the last—the last few months, have more questions and comments about issues around Hydro over the last few months than at any other point since I've been here, which has been a mere—a mere four years.

But I want to ask the minister that she and her predecessor, Mr. Selinger, and the former premier have made a number of comments in connection

with Hydro over the years. There's a promise of a 1,000 megawatts of wind which hasn't materialized. They said the tower was going to cost \$75 million; the latest estimate is now \$283 million, almost four times the original estimate. They projected that the Wuskwatim project would cost \$800 million; the latest estimate there is a doubling of that amount to \$1.6 billion and climbing. They said that there would be massive power sales to the east and yet—and the west, none of which have materialized to date. The premier said during the election campaign that the bipole line would not run down the west side of the province. And they have also said that revenues would continue to rise in future when the last annual report—the most recent quarterly report show drops in revenue at Hydro.

I just want to ask the minister, why is her government so completely and totally wrong when it comes to forecasts about Manitoba Hydro.

Ms. Wowchuk: I'm going to take a couple of the questions, and the others I'm going to refer to the chairman of the board.

But certainly the member opposite raised the issue of wind power, and certainly we have indicated that we want to develop more wind power. The member opposite also has to recognize that there's an economic downturn, and those people who were interested in developing wind power in Manitoba have been facing some challenges, but we are working with them, as the president said. There's a purchase service—a service purchase agreement that's very close to being—going.

I would also say that the—when the member opposite talks about rising revenues, certainly, when you look at what's happening with the economy and where—and the price of fuel and the price of natural gas, all of those have an impact on the price of—that we get for our hydro, and I will leave the specifics of—to the president to address with regard to what Wuskwatim power sales.

Mr. McFadyen: And again, to the minister, these are statements that have been made by ministers of the government over the years; 75 million on the tower, now 283, four times the budgeted amount. Wuskwatim has now doubled. There is a pattern, minister, of overestimating revenue and underestimating expenditures on very many major announcements that have been made concerning Manitoba Hydro, and I want to ask the minister how anybody can take projections made today about the future of Hydro seriously when there is such a

serious pattern of being wrong on both revenues and expenditures on major issues that have been developed by Hydro under her government.

Ms. Wowchuk: I would refer the question to Mr. Brennan, please.

Mr. Brennan: Well, I think I take exception to your comments generally. I think Manitoba Hydro does a very good job of forecasting. I do, and I think the \$75 million that you're talking about was a placeholder for a building. The building was not designed so there was no \$75-million building associated with that at all. What we—the first estimate we had for our building is \$258 million. We increased it by 20 and you're right, our current estimate to have the building complete would be approximately 283, which would be about less than 2 percent, I think, less than the 278. That's my view on the building. So the 75 was not related to a 700,000 square foot building at all.

Mr. McFadyen: Again, it goes to the political oversight of Hydro and again to the minister. It was contained in the consolidated integrated financial forecast for Manitoba Hydro, IFF02-01, page 18 of the budget projection says, new head office, \$75 million. It wasn't—it was contained in a financial projection that was released by, at the time and it was also contained in media reports that members of her government had promised a \$75-million building. Wuskwatim is now doubled. The building was four times. I just want to ask the minister, why do they so consistently underestimate revenues and overestimate costs?

Mr. Brennan: I'll have to get the numbers. I think your first number in the case of Wuskwatim including generation alone, but I'll confirm that for you, and the last one, I think it does and I think the last one includes transmission, but there's no doubt the price has increased. And by the way, this is not something—when you have interest and net escalation moving up and down, things will definitely change over life. Usually, if the costs go up, revenue goes up.

Mr. McFadyen: Mr. Chairman, again to the minister, the revenues of Hydro have dropped in the most recent annual report and also in the first quarter report which has just come out against a backdrop of escalating costs, dramatically escalating costs, and so when we talk about projections, it does give rise to issues of credibility as we look to the future and the concern we have is, I think, consistent with the concern of the Public Utilities Board of Manitoba

which is an arm's-length body established to protect ratepayers who have seen their rates go up over the last two years and, in some years prior to that, a 16 percent compounded increase over the last five years or so and in particular the most recent increase of 2.9 percent in effect on April 1, '09.

* (18:40)

What we see are rates increasing at a rate more rapidly than cost of living. Many Manitobans are seeing their incomes flat and many others have seen their pensions decline, and, as that's happening, Hydro rates are going up, and yet we have this ambitious set of promises about the future of Manitoba Hydro against the backdrop of these very inaccurate past projections.

And I want to ask the minister, who's accountable to the public, and I say this with complete respect for Mr. Brennan, but the minister, who is accountable to the public, I wonder if she can just respond to the public as to why it is that there's been so much wrong information in terms of forecasts in the past.

Mr. Brennan: I can explain to you, certainly, we're in the process of revising the IFF at this particular time. This is the time of year we go through the revisions to the forecast, and there's no doubt our export revenue is down significantly. The market we're selling into is a very distressed market. The last I heard—and I believe the number is right—that one of our major utilities that we sell to has their load decreased in the neighbourhood of 40 to 60 percent, and they've lost complete mines that have closed down in Minnesota and the price is down. The same time their load is significantly down is the price of natural gas—which is a competitor to Hydro in terms of generation—is down pretty low as well. If the load was up there, that wouldn't be as significant, but when the load is not there they'll use that rather than purchase.

So our extraprovincial revenue is down. We'll make that up, though. We got a good product for sale. It's only a matter of time they're going to need our product, and, if their economy turns around—the future of Manitoba Hydro, in my opinion, is something that we should all be real proud of. I really believe that.

Mr. McFadyen: And I agree Hydro has certainly had a great history and we're optimistic about the future, but we also have to ground our projections about the future and what—in the reality of what's

happening currently and what's happened in the recent past.

I want to ask the minister, given some of the political statements that have been made in the House by both Mr. Selinger and by the former premier that there were going to be massive power sales to the east and west, I want to ask the minister: why we are here today, in November of 2009, and these sales have not yet materialized.

Ms. Wowchuk: If I, again, I would say to the member that sales take that time to negotiate. There are dealer sales that are being worked on and we will continue—and Hydro will continue to work on those, and I'm very confident that those agreements will be reached, and when we are through this economic downturn, that when there is a demand for the power we will be able to supply that power.

Mr. McFadyen: And, again, to the minister, Mr. Brennan has outlined some of the—some of the—some, I think, challenge to the credibility of the contractor who has filed a complaint under the whistle-blower legislation. Similar themes, though, have arisen at the Public Utilities Board. They have commented in recent reports about the concerns about risks associated with future actions at Manitoba Hydro. I wonder if the minister thinks that the Public Utilities Board is also lacking in credibility when it raises these concerns.

Mr. Brennan: I certainly have confidence in the Public Utility Board. I talk to them periodically. I don't go to all the hearings anymore. I used to and I quite enjoyed doing that, but I think Manitoba Hydro is able to take a look at the risks that are—the corporation's facing and work it out with the Public Utility Board. I don't think there's a—any time you have a major capital program, people should look at risks, and I think that's—you know, Manitoba Hydro should be able to review those risks and defend ourselves, and I think we can. And I am—I don't think there's any doubt Manitoba Hydro will be able to defend themselves before the Public Utility Board and convince them that we're doing the right type of things, and it doesn't mean to say we do everything right, but I think we do the majority of things right.

There's one other thing I should have mentioned earlier. The one thing that has been good is we've entered into some good fixed-priced contracts in the past, you know, when we built our plant, and that's—because they're fixed-priced contracts, it's helping us, you know, quite a bit today, but over—and that's to

minimize risk—and that's—there's contractors that would suggest that's not the way we should do it.

Mr. McFadyen: And again to the minister, the—obviously there's been a lot of public debate and media comment on the contractors filing under the whistle-blower disclosure act, and I want to ask the minister, I know Hydro has sought and received advice from ICF, which has now been released almost in its entirety, but we have a situation where the contractor or whistle-blower's reports have yet to be—have yet to be released. There was a request for those reports made by the PUB with a September deadline which was not met, and so we're curious as to why it is that they seem to be able to release more recently commissioned studies by ICF but there's such an inordinate delay when it comes to the whistle-blower report.

I want to ask the minister whether she has read the report by the contractor and Hydro's response to it, which was prepared subsequent to receiving it.

Mr. Victor Schroeder (Chairman, Manitoba Hydro-Electric Board): Manitoba Hydro requested of the contractor permission to release the reports. That permission was denied. We have not been handing the report out. But as I understand it, I don't believe that the PUB has asked us for that report. I do believe that they have all of her reports.

Mr. McFadyen: The order coming from the PUB 3209 asked for the internally and externally prepared reports. I would be surprised if the reports prepared by the contractor weren't the property of Manitoba Hydro. I would have thought that would be a standard term of the contract with the contractor. But I think what Mr. Schroeder's saying is it provided the contractor's okay with releasing the documents, that Hydro's okay with it, which is great to have on the record.

But I want to ask the minister if she's read the report and Hydro's response to it, given the amount of public focus there has been on this issue and given the very significant—given the very significant issues that it gives rise to in terms of the future of Manitoba Hydro.

Mr. Schroeder: Yes, Mr. Chairman. Manitoba Hydro has not released the report to the minister or to anyone outside of Hydro at this point.

Mr. McFadyen: Again to the minister: Have you requested the report, and if not, why not?

Ms. Wowchuk: My understanding is this is a confidentiality clause between the contractor and Manitoba Hydro, and they are not able to release the report, and I have not seen the report.

Mr. McFadyen: So is the minister saying that the clause in the contract doesn't allow Manitoba Hydro to release the report to the minister responsible for Manitoba Hydro?

Mr. Schroeder: My understanding of the report is that we're not—of the contract, not the report, of the contract is that we're not allowed to release it outside of Manitoba Hydro. We made a request to the contractor sometime back to allow us to release it to an outside reviewing agency. That request was turned down.

Ms. Wowchuk: That's—just based on that question, that's why we've called on the Auditor to conduct this special audit because the Auditor would have the ability to look at all reports, to look at all of this information. And earlier on, I had announced that we were doing this special audit and it is through that process that the Auditor will be able to review all of those reports.

*(18:50)

Mr. McFadyen: Well, Mr. Chairman, we acknowledge that there are some surprising things contained in that report and we're not in a position to either accept them or not. We're in no position to do that, but I'm surprised that the minister wouldn't have asked for, received and read the report that's been the dominant issue regarding Manitoba Hydro over the past period of time. It's the most important Crown corp in the province and I wonder if the minister will undertake today to read that report and take the action that is appropriate as the minister responsible for Hydro.

Ms. Wowchuk: Mr. Chairman, I believe I have taken the appropriate action by calling on the Auditor to give priority to doing a special audit on the issue that has been raised by the Ombudsman and then referred to the Auditor. And it is through this special audit that all of this will be reviewed.

Mr. McFadyen: Was it the minister's decision to ask somebody who had previously served on the board of Manitoba Hydro to undertake the audit?

Ms. Wowchuk: Mr. Chairman, I felt that it was very important that we address this issue and that's why I asked for a special audit to be conducted. That's why I called on the Auditor General and asked her and

offered to provide special assistance to the Auditor General's office with out-of-province expertise to review and to bring her report before the Legislative Assembly. And I have every confidence in this independent office that our Auditor General can address all of these issues.

Mr. McFadyen: Well, Mr. Chairman, the minister hasn't responded to the question.

Was she aware that the person asked to do the audit formerly was the finance chair of Manitoba Hydro, served on the board of Manitoba Hydro and had, in fact, previously refused to do audits? In fact, in one case, wrote to somebody who had asked for an audit into Hydro, and in her reply dated August 14th, 2008—and I can table the letter—said, and I quote: Prior to my appointment as Auditor General in July 2006, I was a member of the Manitoba Hydro board of directors and thus, neither I, nor my staff, are in a position to follow up on your request as independent auditors.

Given that this is the prior written position of the current Auditor General, I wonder why the reversal in position with respect to the independence of this office?

Ms. Wowchuk: Mr. Chairman, we had the Auditor General at Public Accounts here when the members opposite had the opportunity to ask the Auditor General about this very situation and she indicated that she had sought out advice and been given advice based on the time that she was on the Hydro board and at the time these allegations are made, that she was not in a conflict.

But I look at the Auditors General offices are very independent and professional office. I think that our Auditor General will take every step to maintain that high level of credibility. And that's why when she was at committee, she talked about seeking outside advice at a very high level and that's why we have offered assistance to the Auditor General's office to bring in out-of-province expertise to assist with the review.

Mr. McFadyen: At the end of the day though, ultimately that advice will flow through the Auditor General's office and it's not the opposition that's taking this position, this is a direct quote from the current Auditor General, who says: prior to my appointment, I was a member of the board; neither I, nor my staff, are in a position to follow up your request as independent auditors. It's the current

Auditor General who says that she's not independent on matters related to Hydro.

So I wonder how, in August of 2008, that Auditor General is not independent, but now, in the highly politicized environment we're in today, suddenly that same Auditor General and her staff are suddenly, magically, independent?

Ms. Wowchuk: Mr. Chairman, I will refer the member back to comments that were made at that standing committee and the Auditor General then indicated that she had reviewed and sought outside advice and had indicated that she was not in a conflict-of-interest position. And I respect the views—I respect the independence of the Auditor General's office and the position that she has taken and I would have to disagree with the member that the Auditor General is in a conflict. She spelt out very clearly, at that meeting that the member opposite attended, that she—the time that she was there was not a time when the issues that are being raised now were something that she dealt with.

Mr. McFadyen: Mr. Chairperson, and again, I—it's not my own opinion, it's that the Auditor's own words that give rise to the question, but again to the minister, given the significance of the issue to the province, given the dramatic nature of some of the comments that were made, wouldn't the minister have preferred to have somebody do the audit where no issue—where this discussion wouldn't even be taking place? Why would you even wanna run the risk of having any questions raised about the independence of the auditor by putting the auditor in this position? And it's not a question of capability. We know this is an auditor who has tremendous capability. The issue is one of having a vested interest in decisions that were made at Hydro through some of the relevant time period.

And so given that this—the credibility of the audit is now damaged beyond repair as a result of the lack of independence of the Auditor, why wouldn't the minister want to take the step of having somebody who truly is independent, do a review of the concerns?

Ms. Wowchuk: Mr. Chairperson, the Auditor General is truly independent and has checked out before she took on this responsibility, sought advice from her peers in other jurisdictions. And I can say to the member opposite that he is changing his view of the—of the Auditor General because when she was appointed, in fact, you said, and I quote: She's a very good appointment to a very important job. We know

there are real need for a skilled and determined person in the position and Carol has great credentials and a great track record. We have another who says: We have an Attorney General in Manitoba who's well-respected across the country.

So, on one hand, when she was appointed, the members opposite gave Ms. Bellringer a huge endorsement, talked about how credible she was and what skills she would bring to the office, and then at another time—and in fact, she was unanimously recommended by all—by an all-party selection committee. So, and now, the member opposite, despite the fact that the Auditor General has indicated very clearly that on a time frame that she was with Hydro board and the time frame that this situation came up, there was—she—nothing that would put her into a conflict of interest. And, in fact, she has checked with her peers and sought out advice and has consulted with the chartered accountants institute and a former federal auditor general, an external auditor from another jurisdiction and those people—she's consulted with many people, and I am confident that she can maintain the independence of her office and complete this very important audit with the outside expertise that she has the ability to bring in.

Mr. McFadyen: Mr. Chairperson, I've just—we'll leave this point. I think our position is clear, and certainly the Auditor's position that she's not independent on matters related to Hydro is clear and on the record.

I wanna ask the minister that just with respect to her role since becoming minister, I wanna ask whether she's received briefings on the issues raised by the contractor, and if so, when did those briefings take place and who provided them?

Ms. Wowchuk: Mr. Chairperson, I have received the—the member here sees an outline of the issues that Hydro has been dealing with regard to the Auditor General, and that's the information that is outlined here is the information that I have received.

Mr. McFadyen: So is the minister saying that she has, prior to tonight's meeting, never been briefed on the issues contained in the PowerPoint presentation?

Ms. Wowchuk: I was briefed on—I saw the PowerPoint presentation before this evening.

Mr. McFadyen: And had the minister—has the minister received any other briefings on these issues, and can she just provide the dates of those briefings and who was present?

* (19:00)

Ms. Wowchuk: Mr. Chairperson, the information that is in this package is information that I received within the—within the last week. If the member is asking if I have received a detailed presentation on the issues surrounding the contractor—the contract that has been discussed here, no, I have not. I have left that with—I got information when earlier on we then put out—once I got the preliminary information, that was when I asked for the Auditor General to do a special audit. I asked for that special audit on October 21st, so it would've been prior to October 21st where I would have had some of the information, and when I got that information made the decision on the—on the—to move it to the Auditor General.

Mr. McFadyen: And if I could just ask the minister: Who provided her with the briefings on these issues prior to tonight's meeting?

Ms. Wowchuk: The information that is in this presentation I went through it with the president and the chairman of the board prior to this meeting, and I had discussions with some of my staff to talk about the information, with regard to the issue that the—that a complaint had gone to—that was referred to the Ombudsman and then to the—so it was somewhere in the—I—this information was just in this last week that we went through this part of it and then I had some preliminary discussion with my staff prior to going to the—asking the Auditor General's office to do a special audit.

Mr. McFadyen: Some of the media reports on this story started appearing even prior to September, but a lot of these substantive reports came through September and October. Did the minister not ask for the media briefings on the matters contained in those media reports at the time, or is she saying that she waited until last week to get briefed on these issues?

Ms. Wowchuk: The member opposite misunderstood. I said that I called for a—the special audit on October 21st, so it was prior to October 21st that I received the preliminary information on this and that was when we made the decision that it was necessary to do a—to—it was referred—I knew it was gone to the Ombudsman and that's when I asked for a—for a special audit and offered the extra assistance to the Auditor General.

Mr. McFadyen: And at those earlier briefings was the minister briefed on the substance and content of the whistle-blower's report?

Ms. Wowchuk: No, I wasn't briefed on—in detail. I was briefed to the fact that there was an issue, there was a complaint that was made and that it had been referred to the Ombudsman, but I did not get the details of the content of the—of the report or where the issues were.

Mr. McFadyen: And can I ask whether the minister asked for the details on that report?

Ms. Wowchuk: Mr. Chairman, it was my understanding at the time that this was Manitoba Hydro's report and it was Manitoba Hydro's responsibility to deal with it.

Mr. McFadyen: The minister talks about Manitoba Hydro as though it's some completely detached entity from government. She's the minister responsible for Manitoba Hydro. I wonder if she can just indicate whether she, as minister responsible for Manitoba Hydro, thinks that she has any responsibility to the public to demand answers when these sorts of reports arise.

Ms. Wowchuk: Absolutely. That's why I called on the Auditor General to do a special audit and to deal with the matter, to investigate whether there was any substance to this, but the—but as Mr. Brennan has said in his presentations, they were mostly allegations without substance behind them, but we felt that it was important, given that there—these comments were made, that the Auditor do a special audit to get all—get down to the—into all of the details.

Mr. McFadyen: One of the other things announced is the retention by Hydro of KPMG. Was that a decision that the minister was privy to?

Mr. Schroeder: KPMG is actually reporting to the— to the audit committee of Manitoba Hydro. In retaining them, the management of Manitoba Hydro and the board worked with the PUB and with Crown Corporations Council to ensure that the issues being covered were what they believed were satisfactorily the ones that would actually answer any remaining questions. So KPMG, as I said, reports to the chair of our audit committee, Bill Fraser.

Mr. McFadyen: And I know that audit has also been characterized as an independent review, but since it's Hydro that's paying the bill and the fact that KPMG is reporting to a committee of the board of Manitoba Hydro, is it your position that that's also an independent review?

Mr. Schroeder: The terms of reference, which, by the way, have not yet been finalized with the audit

committee and board—the audit committee is meeting tomorrow, and the board is meeting on Thursday—but they have been approved by management and they have been approved by the other agencies.

Yes, I would say that that's a quite independent kind of a process, the—keeping in mind that the result will be that we expect that we will have a witness from KPMG who is capable of testifying on these issues before the PUB and, of course, will be subject to all the usual tests of cross-examination.

Mr. Brennan: Excuse me. I think I have to defend chartered accountants. Chartered accountants are a credible organization, full of ethics, and I have every confidence in the world that KPMG is credible.

Mr. McFadyen: I have a lot of respect for KPMG as well. I know certainly Arthur Andersen was a great audit firm as well, and they were paid handsomely by Enron to produce the results that they were looking for.

Some Honourable Members: Oh, oh.

Mr. McFadyen: But that point aside—

An Honourable Member: Fact.

Mr. McFadyen: While the members opposite are protesting, it's a fact that Arthur Andersen was one of the greatest audit firms in the world, and they were paid well by Enron to review Enron's reports.

But that aside—and I'm not suggesting KPMG is in that category. I have great respect for KPMG. I know that they would never, they would never do that.

I want to ask again to the minister, on these important issues, arguably the most important issues that have arisen with respect to Hydro in many, many years, whether she's had discussions with her predecessor, Mr. Selinger, on these topics.

Ms. Wowchuk: I'm not sure which topics the member opposite is—which topics are we talking about? Are we talking about Bipole III, about generation—which topics, or Hydro in general? I could—

Mr. McFadyen: Well, rather than playing cat and mouse, why doesn't the minister just share with the committee what topics related to Hydro she has discussed with Mr. Selinger over the past three months?

Ms. Wowchuk: Mr. Chairman, since I've taken over the portfolio and have the responsibility of Manitoba

Hydro, I have been briefed on many of the issues, and I have had discussion with my Premier on many of the issues that he has showed great leadership on, whether it is the development of Hydro, whether it is on additional sales, but I also—so yes, I've discussed these issues with the Premier.

Mr. McFadyen: And was the—was the issue of the request to the provincial Auditor a matter of discussion between the minister and the Premier, and if so, what was the Premier's advice or position on that audit?

* (19:10)

Ms. Wowchuk: Mr. Chairman, as the member knows full well, that we were—we had discussions. The leader, our present Premier (Mr. Selinger) was in a leadership race during the time when this became—got brought to my attention. It was—unfortunately, our present leader was busy with other events, and I did have discussions with staff on how we should handle the issue, and it was at their recommendation that, and in discussion with other people in government, that we made the decision that this was a very important issue and that we should conduct a special audit to ensure that these issues were addressed.

Mr. McFadyen: The minister said that it was the advice of staff to proceed to refer the matter to the Auditor General. Which staff is she referring to?

Ms. Wowchuk: Mr. Chairman, there are many staff that I work together with and I had discussions with many of them on how we should proceed when an issue like this arises, and when you hear that there is someone making comments about Hydro that are not, in my opinion, not in the best interests of the province, we decided, I decided that the best way to deal with it was to call on the Auditor General to do a special audit.

Mr. McFadyen: And we agree that it is logical to want to take immediate steps given the seriousness of the issues and the importance of Manitoba Hydro. Can the minister just name the staff that provided the advice to refer the matter to the Auditor General?

Ms. Wowchuk: As I indicated previously, there are many people on staff within government who work with us on policy. We had a thorough discussion on this and then made the decision to move forward—to give us—to move this to the Auditor for a special audit.

Mr. McFadyen: And are we—I think what she's saying is that some of that staff—some of those staff worked in the Premier's office and/or Executive Council?

Ms. Wowchuk: Mr. Chairman, of course on issues like this that are very important to government, our Manitoba Hydro is a very important Crown corporation, and we would not want its image tarnished, and we did not want allegations to be made and to be lingering out there. And, of course, we would—I would talk to—I talked to senior staff about this, about how we should handle it, and, after having the discussion, I made the decision, along with staff, that we should go to the Auditor General and do a special audit and bring in the resources from outside of province to get the expertise here to review it.

Mr. McFadyen: And when the minister refers to senior staff, she's referring then to senior staff in the Premier's office?

Ms. Wowchuk: Actually, I'm trying—no, it was discussion, it wasn't the Premier's office. It was from various people, and I could get the member the names of people of whom we met with, who the people are responsible, and I could easily provide that list for the member, which I will do.

Mr. McFadyen: Thank you to the minister, and we would appreciate just getting a list of the briefings and who provided advice after these stories broke, from the time she was appointed minister until tonight. That would be appreciated, and I thank the minister for that undertaking.

I want to ask the minister whether some of the substantive issues which were raised by the contractor who filed the report under the whistleblower legislation relate to forecasting and also relate to technology and computer systems. And this is maybe a more appropriate question for Mr. Brennan, given that it's getting a little more operational, but I just want to ask whether the points raised about the computer systems and the relatively small number of people who had the ability to control the operation of those systems, whether those concerns are without merit or whether there's anything to those concerns?

Mr. Brennan: First of all, I think the report said that we have old computers. Well, I don't think that's the problem. We're talking about software systems that are continually under review. Certainly, people involved in the operation of a lot of things at Manitoba Hydro don't have all kinds of backup. You

know, there's all kinds of those, you know. So it's always an issue of succession planning and throughout the corporation, and I don't think it's any worse with this particular area than throughout the whole company. Like, you always got a—we got some pretty sophisticated people. We got people that are hard to replace when they retire, and I hope I'm one of those, by the way. Like, I don't hope for Manitoba Hydro's sake, but I hope they find somebody equally as good.

Mr. McFadyen: I'm not going to take the bait on that one, Mr. Brennan. I have a lot of respect for you, Mr. Brennan, and your skill as a CEO, particularly your skill at responding to opposition questions.

But I want to just again, I think what—it seems to be a serious issue, and I have heard the concerns about the work of the contractor that you've raised, but there are substantive issues that have been raised, and I don't hear anybody saying that substantively they're wrong or that it's inconceivable that any of these things could happen. We are aware that the risk is really one of rising rates as opposed to bankruptcy, but the issues around computer systems and other issues that have been raised, apart from some of the concerns that have already been raised, can you just address the substance of what's contained in that report and indicate whether there are any substantive points that you would agree with and which substantive points raised you would disagree with?

Mr. Brennan: One of the issues we have is, a whole bunch of allegations have been made, but they're allegations. They're a lot like, you know, just saying something about somebody. So what we did as senior management within the company, we asked for the people that are involved in the area to take a look at it because it's a lot of technical issues, ones that I certainly don't have all the answers to, and they did a couple of reports, and they agreed with virtually nothing, like it was almost everything. So that left us in a position we have a view that said, you know, we have an issue here, just like you're doing, too. So what do we do? The first thing, of course, we talked with the audit committee of the board. We talked to the Hydro board, and this has been going on for a while, and so we decided to hire ICF and we took the two major issues and said, these are the ones that are, you know, really, really serious; take a look at those and see whether, what your opinion is on those.

We also came to the conclusion with the audit committee that the other allegations should be looked

at as well, and although I'm reasonably comfortable that, you know, they'll come back saying what we're doing is reasonably correct. I can't imagine, with somebody doing an in-depth review, that they won't find something that—I like to think we're perfect, but you know, we're not, and so there will be some things I'm sure that we can improve on, and I think that's what's made Manitoba Hydro a good company. We do change when we should change, but I'd like to know what's wrong so we can physically make a change, and I am come to that conclusion on anything.

* (19:20)

Mr. McFadyen: Thank you, Mr. Brennan, and on the—on the ICF report that was done in response to the—the response to the—to the whistle-blower contractor, there are some comments made in that—in that report that would suggest that it wasn't within the scope of that review, given that the scope was defined by Manitoba Hydro as opposed to somebody from outside of Hydro that, in that review, that company was not asked to look at projected costs related to Conawapa, Bipole III and some of the other future major capital projects as part of that review. Is that correct that those were outside the scope of the ICF review?

Mr. Brennan: Yeah, there was an allegation made about costing of—like there was no work done on the costing of a new plant. So we didn't think that was an issue at all.

Mr. McFadyen: And one of the other references that I think notable in the ICF report which has been released is the assumptions made about prices for power in the future in the export markets, and one of the—the language that's used in the report I just need to—I just need to get it in front of me because I think it's quite an important point. Just bear with me for a second here. No, it's on prices. Oh, yeah, I've got it. The reference in the report is to proposed prices and that they're—it's reasonable to arrive at certain conclusions about these future projections based on proposed prices, which I thought was an interesting choice of words as opposed to actual prices. I know you're in negotiations. You don't have actual prices as of the present day, but when they—when ICF talks about proposed prices, who proposes those prices?

Mr. Brennan: First of all, in terms of the contracts we have, we do—we have term sheets that have fixed the price. The only thing that's not fixed in those prices is the escalators associated with them. You know, you don't know what they're going to be till

actual escalation takes place and you can measure that, but right now the base price has been fixed in the—in the—in the term sheets.

Having said that, we don't have firm contracts. So, you know, somebody could try to get out of it before it's signed, but at this point I think those prices are firm.

Our projections are based on estimates. We've been doing work on our IFF right now, and when you spend a lot of money up front in plant you got to make sure that you're able to afford that money up front through increased revenue after the plant comes into service.

And we've taken a look at the 20-year forecast. As I was saying, from a 10-year where you're borrowing lots of money and spending lots of money, and they're looking out very, very attractive to us. So with—and I think whenever we look at when the—when the signed contracts go before the Manitoba Hydro management and the board, they will include all kinds of sensitivity to prices, both in construction costs as well as revenue prices, and we'll know what the risks are.

Mr. McFadyen: Mr. Chairman, and the section of the ICF report that got my attentions on page 6, under 1.2, where it talks about the 20- to 30-year commitments versus shorter commitments, and in that paragraph of the report, the company—or the report states that it makes sense to enter into long-term, fixed-price contracts in the manner in which the company is proposing. And it says, for example, Manitoba Hydro is entering into a long-term contract with Northern States Power and is also entering into two firm, long-term contracts with Wisconsin Public Service and Minnesota Power. All of these are future tense in terms of the—in terms of these contracts.

So are we correct in assuming that prices have not yet been set and those contracts are not yet finalized in terms of any of those sales at present?

Floor Comment: No, as I mentioned—

Mr. Chairperson: Mr. Brennan.

Mr. Brennan: I'm sorry. I seem to get carried away from myself, and I apologize for that.

The prices are fixed in terms of a base price. So there's a base price for capacity and a base price for energy, and once we know escalation that occurs in terms of those prices, they will be applied to them. So, whatever happens, happens, but the escalators will be included; Manitoba Hydro's estimate will be

included in all our forecasts. So the price is fixed for those contracts.

I'd like to just point out one other thing. When you talk about—one of the issues the contractor suggested was that fixed-price contracts are not good and we should build, you know, two major plants and supply the power and not get a fixed return and there's massive risks associated with that. Not having a contract to sell the power, to me, is just scary and yet, that's what the situation was and here's what we get. We get the ability to get another transmission line out of Manitoba with that contract. So now we got another market. We got the ability to export more power overall because of the transmission capability. We got the ability to import power should we have a drought in Manitoba, and it increases the overall amount we can import and, generally, is really good for Manitoba. Any new export transmission lines are worth their weight in gold. They really are.

Mr. McFadyen: You said that the base prices are fixed already and you said they're fixed in term sheets. Can you just explain the difference between a term sheet and a contract?

Mr. Brennan: A term sheet is like you agreeing to purchase a house. You make an offer, the offer's accepted. Now you formalize it into a contract.

Mr. McFadyen: And what happens under the term sheet if one of those parties decides they don't want to proceed?

Mr. Brennan: Then we don't proceed.

Mr. McFadyen: What are the implications of that for Manitoba Hydro?

Mr. Brennan: You would immediately take a look at your forecast of capital and not proceed with the capital.

Mr. McFadyen: So, what you're saying is, you can't hold those parties then to those prices if they decide today they don't want to proceed?

Mr. Brennan: I think everybody went into the situation with—you know, people can't just automatically get out of them, by the way; they've signed to them, they're committed to them and people, you know, they're subject to further approval, like regulatory approvals and that sort of stuff. But everybody's bound to make a contract out of that.

Mr. McFadyen: Well, I—so what you're saying then is that the three agreements referred to now bind Minnesota Power, Wisconsin Public Service and

Northern States Power to buy power from Manitoba Hydro at those base prices?

Mr. Brennan: Yes, it bounds them to enter into a contract with Manitoba Hydro to do that.

Mr. McFadyen: Well, you know that a contract to enter into a contract is not enforceable? *[interjection]* A contract to enter into a contract is not enforceable.

Mr. Brennan: Well, there are clauses like, you know, we have to get regulatory approvals. They have to get regulatory approvals to do it. That includes, on their end, approval for the purchase through, you know, their system, and it also includes the transmission in the United States which is much greater than the amount of transmission in Manitoba.

Mr. McFadyen: So if they were to walk away from the term sheets, would Manitoba Hydro be suing them to enforce them?

* (19:30)

Mr. Brennan: I think we would have to sit down to decide what we're going to do. You got to remember that these are people that want power in the long term. Like, we're a good supplier of power and nobody cuts off—I'm not sure how that goes anymore—their nose to spite their face. *[interjection]* Yeah. So, nobody would do that. They would come to us and say, here's our problem, how are we going to deal with it. And, I mean, these are big customers, they're good customers, and something else would happen.

Mr. McFadyen: And is that something else that they would ask you to lower your prices?

Mr. Brennan: I think if the world changed dramatically, they might. Who knows? You know, they won't ask for sure to increase 'em. We know that, you know, but Manitoba Hydro could.

Mr. McFadyen: One of the comments made by ICF is that you have to ignore last year and this year's prices to arrive at their conclusion. Do you think it's reasonable to ignore recent experience in terms of pricing and make assumptions based on things that happened over the prior 10 of the prior 12 years, but ignore the experience of the past year and a half?

Mr. Brennan: I think so. I don't think prices in—the prices we're getting in the middle of the United States is— they're nowhere else. So how long can that stay? You know, like, it just can't stay for a long time. Yeah, I think that's a valid assumption.

Mr. McFadyen: And, so as we—as we analyze what the whistle-blower is saying and what you're saying, what others are saying, is it fair to conclude that everybody's got their own theory about what might happen in the future and that we'd be wise to prepare for all of those scenarios?

Mr. Brennan: I think Manitoba Hydro does.

Mr. McFadyen: The prices that are currently—that power is currently trading at on the midwest ISO are about \$8 off of what the—what the average had been for the prior 10 years, and that's consistent with where we are to date, and we've seen a loss in the first quarter of '09-10 or a decline in revenue in the first quarter of '09-10 as a—partly as a result of those decline prices and a drop in revenue in '08-09 compared to the—to the previous year. How—in terms of projecting into the future, what analysis have you done and what impact would there be in the event that there is a significant lag between the time that—where we are today and those prices come up again? I mean, we're—economists are all making different projections, and so in the event that prices maybe don't come up to the levels that they had been at, at the peak of economic activity in the U.S. from 1997 to 2008, how does that change your assumptions about the go-forward capital plan and contracts that you may enter into?

Mr. Brennan: Well, certainly, we have a long time to—before the contracts start, you know, we're talkin'—what—10 years at least for the Wisconsin and Minnesota. What we'll do, we'll do the same thing as we do every year. We take our IFF to the board, we show them what happens if prices don't materialize, if they're higher, lower, you know, all the various rates are looked at independently and we see what impact they got in the forecast and before the final contract's approved we'll make sure all those risks are looked at, and Manitoba Hydro would never enter into a contract that wasn't going to make it money.

Mr. McFadyen: The—just on—just a couple of quick questions on consulting costs. I know you had expressed some of your own concern about \$94 million spent on Wuskwatim for the consultation process. This is not—this is before a spade even hits the ground, and we now understand that we are at something in the range of 62 million in connection—63 million in connection with Keeyask. This is just money spent in preplanning consultation.

Can—would you be good enough to just explain how the numbers could get that high? Those seem

like extremely high numbers to spend in consultations.

Mr. Brennan: Those numbers are, you know, are a concern to me, as well. We've been dealing with First Nation communities for an extended period of time in trying to come up with a concept and a model to develop a partnership arrangement whereby First Nation communities can benefit, and this has taken us a real long time. And they have to—the First Nation communities, have to be put in the same position that Manitoba Hydro is. They have to have accountants. They have to have lawyers and economists and everything like that, so that they in turn hire them, and we reimburse them for those costs as long as they're reasonable, and we've been working on it a long time.

Now, the one good thing out of all this, although I don't like the amount of money it's taken, we've developed a model that I believe is going to be something that First Nation people are going to benefit from right across the country. It's going to be a model that is—although Manitoba Hydro paid the cost—it'll be good, certainly, in the future, in some of our other things. We've learned a lot, and we've learned some of the pitfalls of things not to do, and some of the good things that result of it. The end result, though, is the First Nation communities are going to be significantly better off as a result of our development.

Mr. McFadyen: Well, I'll—I will—maybe I'll reflect the question coming from Grand Chief Shannacappo and just ask if he can indicate which communities will benefit from these consultations and projects?

Mr. Brennan: Yeah, I guess they were negotiations and discussions rather than consultations but, having said that, we know that in the case of Nelson House, it was the Nelson House First Nation in the case of Wuskwatim. In the case of Keeyask, it is the four communities associated with that plant—in the vicinity of the plant—which is Fox Lake, War Lake, Split Lake and York Landing.

Mr. McFadyen: Would you be able to provide a breakdown—I know there's been freedom of information requests filed already, but a breakdown on how the \$94 million in connection with Wuskwatim and the amount spent in connection with Keeyask, a breakdown as to how that money was spent—where it went?

Mr. Brennan: We'll give you as much as we can under the freedom of information guidelines.

Mr. McFadyen: Just a few questions for Mr. Schroeder, just in connection with the board and governance.

Mr. Schroeder, as chair, can you just indicate when you became chair of Hydro, who made that appointment and how often the board as a whole meets, normally speaking?

Mr. Schroeder: I was appointed by the government in the year 2000. The board meets ordinarily eight times a year. It has a number of committees, depending on what is happening at the time. There's a committee that was, specifically as an example, formed to meet with some of the PCN or Cross Lake issues. There's obviously the audit committee, which is constantly active, and it's—I'm very pleased with the membership. There's an HR committee that has gone through about seven years of work—excuse me—work on a succession plan with the corporation, and that has been finalized at this stage. It's, I believe, working quite well. Those are the committees at this time. I think that was all of what you had asked.

* (19:40)

Mr. McFadyen: And is it correct that you and other board members are appointed by Order-in-Council and that you serve at the pleasure of Cabinet?

Mr. Schroeder: There's some members of the board, those who were appointed to the board prior to approximately 2003, who serve at pleasure as members of the board of directors. Those appointed subsequent to approximately that time have since then been appointed for one- or two- or three-year terms, and, as I understand it, they now—when they expire, there's a provision in them saying that they remain as members of the board until they are replaced or reappointed.

Mr. McFadyen: Can you just indicate, you've mentioned roughly eight times a year as a full board you meet and there are committee meetings that would take place in-between, and as chair of the board, how much time in a month would you spend on Hydro-related business?

I know this is not the only thing you do. So, as chair of the board, what is your time commitment, just in general terms?

Mr. Schroeder: Actually, other than trying to learn to play golf, it is the only thing I'm doing.

I have a contract, which is separate from the appointment as a member of the board, to be chair of the board, and that contract requires me to provide

half-time to my duties as chair of the board, and I believe that I've clearly provided at least that amount of time over the past 10 years.

Mr. McFadyen: And just that contract, is that with Manitoba Hydro? Is your compensation paid by Hydro or is it paid by government?

Mr. Schroeder: It's paid by Manitoba Hydro and it's signed by Manitoba Hydro.

Mr. McFadyen: Are any of the people who chair board committees parties to similar contracts with Hydro?

Mr. Schroeder: No.

Mr. McFadyen: In terms of the relationship of other board appointments, do they—I understand they receive compensation. Can you just outline the compensation paid to other board members, other than yourself, and whether there's anything in addition to the regular stipends that are paid to those who chair board committees?

Mr. Schroeder: My recollection is that board members are paid something like \$7,000—*[interjection]*—\$7,200 a year. There is no extra pay for being chair of a committee, and there is one person who's on a committee who is not a member of the board.

Mr. McFadyen: Could you just outline what the responsibilities of the finance committee of the board are?

Mr. Schroeder: The finance committee, the ultimate task is to monitor financial performance and results.

Mr. McFadyen: How often would that committee meet?

Mr. Schroeder: It depends on what is happening at the time. There would be at least four formal meetings in a year. Sometimes, such as right now, there might be additional meetings.

Mr. McFadyen: And when you say right now, are there additional meetings taking place because of the issues such as the whistle-blower allegations? Is that—when you say right now, you're saying they're meeting more regularly because of the amount of—the number of issues that are currently in the public domain?

Mr. Schroeder: There has been additional time and, of course, there's time in-between the meetings that the members are spending dealing with the issues arising.

Mr. McFadyen: When was the whistle-blower issue first brought to the attention of the board?

Mr. Schroeder: It would have been somewhere around January of 2007 that I first became aware of it. The contractor, before contacting me, had contacted a member of the board, not a member of the audit committee. The member of the board referred her to me, and we proceeded from that point.

Mr. McFadyen: And did you at the time brief the minister about the matters that had been brought to your attention?

Mr. Schroeder: I don't recall specifically briefing the minister at the time. There was—it was a rather unusual process that was taken by the contractor at the time, and we were immediately ensuring that the issues raised were dealt with by the corporation, and I believe that they were from the time her report was received by the corporation in late 2006, in December 2006, which I didn't receive at that time, through to now.

Mr. McFadyen: And the report, as you say, of December 2006, you were saying, was brought to your attention in January 2007, a month later. Can you just indicate, when was the first time that you briefed the minister on the report?

Mr. Schroeder: I don't recall.

Mr. McFadyen: Did you brief the minister on the report at any time?

Mr. Schroeder: I certainly briefed the minister on the fact that there was a disgruntled contractor and that there were allegations that we ought to be proceeding with building new generating stations without long-term contracts and, you know, some of the issues that had been raised and that we were going to be looking seriously at these issues on the one hand. On the other hand, there was an issue, quite frankly, of credibility.

Mr. McFadyen: And is the same issue of credibility applied to the PUB who's raising similar concerns?

Mr. Schroeder: I'm not aware that the PUB is suggesting that we should build long-term generation without having long-term contracts, which also don't trigger the transmission and security of supply which Mr. Brennan was referring to.

Mr. McFadyen: So you said that you did brief the minister. Was it the current minister or the previous minister that you briefed?

Mr. Schroeder: I've had general discussions with both ministers.

Mr. McFadyen: Would you have had discussions with the former minister of prior to the end of 2007?

Mr. Schroeder: I don't recall.

Mr. McFadyen: Would you undertake to come back to us with a response to that question?

Mr. Schroeder: I'll do my best.

Mr. McFadyen: Have you had any direct discussions with Mr. Selinger on this issue since he became Premier?

Mr. Schroeder: No.

* (19:50)

Mr. McFadyen: Did you, in briefing the government at the time, brief them on the fact that the contractor's role with Hydro was going to be terminated?

Mr. Schroeder: Her role with Hydro, in terms of providing advice, had been terminated at the end of 2006. From that point on the only issues she was dealing with with Manitoba Hydro was in-management was attempting to get her to explain what it was that she was saying.

She was sending reports, hundreds of pages, which, quite frankly, were mind-numbing in terms of what it was that was being said, and management was asking her to put it into points. You know, what are your top 10 or 20 issues? Let's put them on the table so we can deal with them.

But let's be clear that there was no contract where she was to provide new advice to Manitoba Hydro after 2006, and the last contract that was entered into by management with her was 20 hours a week for six weeks in February and March of 2008. And that was stretched out, and finally Hydro management decided not to pay any further past September of 2008.

Mr. McFadyen: So you're saying that this contractor was doing work for Hydro concurrently with the—some of the work she was doing was done at the same time as the current Auditor General was on the board of Hydro?

Mr. Schroeder: I'm saying that the board of Manitoba Hydro had never heard of this contractor whatsoever when Carol Bellringer had left the board. She left the board in the summer of 2006. At that time no member of the board of Manitoba Hydro had

ever heard of the contractor or anything to do with the contract—full stop.

Mr. McFadyen: And that wasn't the question. The question wasn't whether they'd heard of the contractor. The question was whether there was overlap in time periods between when Ms. Bellringer was on the board and this contractor was doing work for Manitoba Hydro.

Mr. Schroeder: The contractor was doing work for Manitoba Hydro, as indicated in Mr. Brennan's slide, during 2006, and in September of 2006 was notified that the contract would not be extended.

Mr. McFadyen: And so what you're saying then is that Ms. Bellringer was on the board of Manitoba Hydro while the contractor was doing work for Manitoba Hydro.

Mr. Schroeder: What I'm saying is that the contractor finished her work on the contract by the end of December 2006.

Mr. McFadyen: When did she start?

Mr. Schroeder: The contract was signed in the spring of 2006. She had started before that.

Mr. McFadyen: So Ms. Bellringer was on the board of Hydro while the contractor was doing work for Hydro. Yes or no?

Mr. Schroeder: Well, you can look at a calendar as well as I can.

Mr. McFadyen: And what would the calendar tell us if we were to look at it?

Mr. Schroeder: The contractor worked for us from January of 2006 to December of 2006 on that contract.

Mr. McFadyen: And Ms. Bellringer was on the board of Hydro during that period of time?

Mr. Schroeder: I told you earlier she finished her term in July of 2006.

Mr. McFadyen: The—just on the issue of briefings related to this issue, can you just indicate how often you would, in the normal course, meet with the minister responsible for Manitoba Hydro to discuss matters related to Hydro?

Mr. Schroeder: I would say certainly every other week. Sometimes it was more often. We would often go to up north to specific sites or on other business elsewhere.

Mr. McFadyen: And so if you're meeting every other week, which would be—add up to about 26 times a year, would it be roughly accurate to say you met with Mr. Selinger every other week through 2007?

Mr. Schroeder: I would expect so, yes, roughly.

Mr. McFadyen: And so is it probable that you discussed this issue with Mr. Selinger during 2007?

Mr. Schroeder: As I've said, I will check and I'll get back to you.

Mr. McFadyen: Can you just indicate, since the media reports started appearing just a few months ago, how many meetings have you participated in to discuss the issue of these allegations brought forward by the whistle-blower?

Mr. Schroeder: Are you referring to meetings with the minister or inside Hydro?

Mr. McFadyen: Sorry, ministers inside Hydro—sorry, meetings inside Hydro.

Mr. Schroeder: I would think that something has been happening on this file for the last few months every day inside Hydro.

Mr. McFadyen: And how many—how many meetings have you attended with the current minister with respect to this issue?

Mr. Schroeder: None that have been called to deal with this issue that I'm—that I can recollect. It certainly has been discussed, you know, just as an aside, but it's not been a major issue in any of our discussions.

Mr. McFadyen: But it has been discussed in meetings, even if the meetings weren't called expressly for that purpose?

Mr. Schroeder: Well, actually, the only time I recall just offhand is the two times we met to prepare for this meeting.

Mr. McFadyen: And who was present at the meetings that were held in preparation for this committee meeting?

Mr. Schroeder: The minister, Mr. Brennan, some staff people and myself.

Mr. McFadyen: Were—the staff people you're referring to, were they political staff?

Mr. Schroeder: I'm not sure how I answer that. I know only one of them, and he is—he works on the Hydro file in the—in the minister's office.

Mr. McFadyen: And were there staff present from Executive Council or the Premier's office?

Mr. Schroeder: No.

Mr. McFadyen: Have you had any other discussions with staff from either of those offices independent of those meetings on this topic?

* (20:00)

Mr. Schroeder: Well, I did have one informal discussion with one person, but it wasn't a meeting. It was just a brief discussion on the telephone.

Mr. McFadyen: I think I'm going to go leave it for now. I've got some colleagues who I think have a few questions so I'm going to stop and give them a turn so thank you very much.

Mr. Cullen: I'd just like to follow up on the whistle-blower allegations and get a comment from the minister if we could. I believe it was last December that the whistle-blower went to the Ombudsman under the new whistle-blower protection legislation, and even at this point in time, we see very little action on this particular file. In view of that, I'd just like your opinion in terms of almost probably 11 months, coming up on a year, where there's been no actions taken on the whistle-blower allegations in terms of bringing it forward to the Ombudsman's office.

Ms. Wowchuk: Mr. Chairman, I believe this—it went to the Ombudsman's office. The Ombudsman referred it to the Auditor General, and when it was brought to our attention, particularly to my attention, I asked that a special audit be done and that the Auditor General be given the resources that are needed, and we asked her to move on this quickly. We made that decision on—announced it on October 21st and we are acting on it.

Mr. Cullen: Yes, the Auditor's office has had the issue since last March and hasn't been moving on the file. Can you update us in terms of where that report is at?

Ms. Wowchuk: The Auditor General's office is an independent office and I, as is the Ombudsman, and I cannot speak for those individuals and, in fact, you had the opportunity at this committee to talk to the Auditor General about that report. What I did ask was that the Auditor General pay special attention to this and that we were putting additional resources into it and that outside, out-of-province, expertise be brought into it and for her to deal with it in a

expedited fashion and I look forward to her report and when she is done, she'll report to the Legislature.

Mr. Cullen: Why, in view of that, has the board of Manitoba Hydro received a request for any information from the Auditor General's office on this particular file?

Mr. Schroeder: No, we have not.

Mr. Cullen: Has the executive at Manitoba Hydro received any requests for information from the Auditor General's office in regard to the whistle-blower allegations?

Mr. Brennan: No.

Mr. Cullen: Well, I go back to the minister's comments then about an expedited investigation of this particular whistle-blower allegations and I would think that the Manitoba Hydro would be one of the first people, corporations, asked for any information regarding this. Does that raise a red flag in itself, Madam Minister?

Ms. Wowchuk: Mr. Chairman, I have a lot of respect and faith in the Auditor General as has members opposite. Members opposite, in their comments when the Auditor General was hired, gave her great endorsement and expected her to do a good job. She's a very skilled person and I leave—her office is independent. She has been given the resources and I expect that she is doing some of her preliminary work. I have not talked to her because if I talk to her, you would say I'm interfering in a process. It's her job and she's been asked to look into this matter, and I expect that she is looking into it. She will draw on the resources that she needs and the information that she needs and will bring a report to the Legislature.

Mr. Cullen: Well, when the Auditor was at the latest Public Accounts meeting, she had indicated that she was going to be seeking out some information, looking at various options and then reporting back to the Legislative Assembly or members of the Assembly. And I'm assuming by the minister's comments, she's had no recommendations coming from the Auditor's office.

Ms. Wowchuk: When the Auditor General does her report, it will be tabled. It will be presented, and it will be tabled in the House and I have not—there has not been any information provided to me.

Mr. Cullen: Well, the minister in her news release, made a reference here to out-of-province expertise to assist. I'm assuming there's going to be some special compensation provided here. What—has any

compensation been made available to the Auditor's office or has the Auditor requested any special expertise or compensation?

Ms. Wowchuk: When the Auditor General was here at Public Accounts Committee, she had indicated that she has sought outside advice as to whether she is—and she—I should say, she has consulted with other auditor generals, and she said that there—it is her intention to seek auditor—another—an external auditor from another jurisdiction to oversee the entire process.

And if I could refer here in the letter that I sent to the Auditor General, I outlined what, in the letter, what she had the ability—what she should do and that she should contact outside supports. And, if there—and I assume that there are going to be additional costs and those costs, she has the authority to bring those people in.

Mr. Schroeder: If I could just add to my earlier answer.

When our audit committee meets and discusses this issue, one of the people present at that meeting is a representative of the Auditor General's office. So they have become aware through that process of what is going on in terms of the outside consulting, the issues that are being framed, that sort of thing. So it's not as if they're not aware of what's going on or having their input.

Mr. Cullen: Just to follow up on that then, how many times has the audit committee met when someone from the Auditor General's office was present?

Mr. Schroeder: Well, every time we have met over the last 10 years somebody from the Auditor General's office has been present. From that—that's from before the current Auditor General's time through to now. I can think of only one particular meeting where there wasn't a representative offhand. There may have been others where there was an absence. I just recall one.

Mr. Cullen: Just to clarify, the current Auditor General, was she also chair of the audit committee in her time on the Manitoba Hydro board?

Mr. Schroeder: During her time at the—at Manitoba Hydro, yes.

Mr. Cullen: Just to clarify further then, when she was chair of audit committee of Manitoba Hydro, there was also someone from the Auditor General's office attending to the audit committee meetings?

Mr. Schroeder: That's my recollection, yes.

Mr. Cullen: A question to the minister. I know she referenced a letter that she'd sent to the Auditor General. Would she table that letter for the benefit of committee?

Ms. Wowchuk: Certainly. I have a copy of the letter outlining the request that I made to the Auditor General, and I would be able to provide you with a copy of it.

Mr. Cullen: Thank you.

I want to go back to the presentation earlier in this evening, Mr. Brennan, and in reference to the Wuskwatim project that's currently under way.

Now you had indicated that there was 1,447 First Nations people had been hired out of the 3,135 for 46 percent. What kind of staffing would be on-site at any given time during construction just in round figures?

* (20:10)

Mr. Brennan: The First Nation had a contract to build some of the infrastructure before the project started. So, at that point in time, they had, well, the majority of all the people there, and, as you get into more skilled jobs, the number of Aboriginal people go down. So I don't know if that answers your question, but, certainly, they had the—in conjunction with a partner who were responsible for building the road in and some of the other preliminary infrastructure.

Mr. Cullen: Well, I'm trying to get a bit of a sense of the turnover there at the site. I think we've had over 3,000 people employed there, and I'm wondering what kind of a turnover you have in terms of people staying for various lengths of time?

Mr. Brennan: I will have to get that for you. Some of it is a function of what kind of skills you need on the job at various times. You know, when you build a road and there's all kinds of earth-moving equipment and gravel trucks and, you know, people are smoothing it out. Now, I'm talking about it from my perspective which, I'm sure, some engineer would question, and then as you get into the concrete work and, you know, that sort of stuff, you need different type of skills.

So I don't know, but we'll get you the turnover ratios and some of it will be related to a change in skills, but I'm not sure how much. But we'll get you the exact numbers.

Mr. Cullen: I would appreciate the undertaking.

In terms of the financial value of the particular project, I know we talked earlier, and the earlier estimates of the project were about \$800 million and then there was \$1.6 million. Do you have an estimate where you might finish up on that project?

Mr. Brennan: We're still going with our—by the way, I don't accept the 800 and all that sort of stuff without looking at it, okay? I think I should look at it.

I know for sure that if the 800 is right, which it is possible, it was generation only. It didn't include transmission. The 1.6 includes transmission.

But, having said that, I can give you a rundown of what it started at for both the generation and transmission and where it is today. And that's are—our current estimate is, for both, is approximately 1.6.

Mr. Cullen: Well, I would appreciate a breakdown on that, and my understanding is—obviously the dollar figures have changed and they've changed considerably from when the first contract, if you will, was signed within NCN. And I guess I want to get your opinion in terms of where that particular contract is. Is there going to be a renegotiation of that existing contract? The terms of that contract, are they going to be changed in terms of the dollar figure that NCN is going to be responsible for?

Mr. Brennan: Okay, let me go back. If you remember, when we originally went out, we went out at a time when the economy was charging ahead. Escalation in construction cost was really, really high. So we certainly experienced some of that in terms of the original estimate we had, for sure.

Subsequent to that—and then we went out for a tender, we only got the one contractor bidding on it. We didn't like the price the contractor was doing and there's other issues as well.

So we looked at various options. We split up the main contract into three components and bid some of those separately and actually arrived at a price that we're very, very comfortable with—I don't know, very, very comfortable. We're comfortable. And now we have a contract that we're comfortable with, the contractor seems to be comfortable with, and it seems to be within our estimate. We're now gonna be a year earlier than we originally thought. So things are looking very, very good right now. So I don't see

it being changed in a negative fashion. It looks good to me.

When you go up and look at this plant, it's so different from the large plants on the Nelson we had. It's in a real compact area. You got the spillway and the generating station virtually beside each other, and it's a—it's a—it's a different project—neat—looks so small compared to the big ones we built on the Nelson.

Mr. Cullen: Yeah, my question is more in regard to the—in the contract and the negotiations you had with the First Nations community. Now, obviously, when you started those negotiations or where you come to a fruition and you signed a contract, whatever the value was. I understand, you know, the First Nations are gonna be responsible for a certain percentage of the capital cost. We're also involved in the capital—or the cost share—the profit sharing in the end of the day. And because those costs have changed on the project, will you have to go back and revisit the contract you signed with the First Nations community?

Mr. Brennan: I misunderstood your question. I apologize.

The question is two things happen. First of all, there's no doubt that it looks like the benefit accruing to the First Nation community is going down as a result of escalation on the—on the job, and the second thing is we worked out a partnership agreement with the Keeyask partners that was somewhat different, and it did a couple of things. It—it minimized large gains or large benefits to the community at times, but it improved the bottom end. And so we agreed that we would sit down with the First Nation community associated with Wuskwatim and look at a similar arrangement with them. And that we are prepared to do.

Mr. Cullen: Okay, and so this goes back to a—to a previous request here. We're know we're at \$95 million and counting on the Wuskwatim project, in terms of dealing with First Nations and legal and consulting fees. Obviously, that figure could go up in the future if you're going back to renegotiate that contract. I'd certainly appreciate it if you have a budget in mind of where that's gonna go.

Now, that figure doesn't include the cost to Manitoba Hydro to get to that point, to sign the contract either. That's something we discussed back in June, as well, and it's something we didn't ask for. Do you know what the cost to Manitoba Hydro was

in terms of the consultation, legal fees to develop the agreement at Wuskwatim?

Mr. Brennan: I don't have that number at the top of my head.

Mr. Cullen: Would you be able to provide that number for us, for both the Wuskwatim contract and also for the contract that was evolved for the Keeyask project?

Mr. Brennan: We could attempt to, for sure.

Mr. Cullen: I would appreciate that.

The other thing, then, in terms of the Keeyask project, do you have a revised dollar figure in terms of what the capital cost is going to be on that particular project?

Mr. Brennan: We have an estimate for it, for sure. I don't believe it was a revised from what was at June. But I can check and see if it was. I don't think it was though.

Mr. Cullen: I guess as you—as you go through the process with negotiations on this term—this time like Keeyask, with the First Nations communities, there's probably an audit process that happens after all that. Is there such a process that happens where those funds are audited, your books are audited and the money that's expended, is that audited as well?

Mr. Brennan: Yeah, we get an audit of our records, of course, by outside auditors. We have internal auditors, as well, plus when the invoices come in, there's a process whereby they have to be checked by our own staff, and they have to be in accordance with what they proposed to do originally and there's limits on what they can spend. And in addition to that, they have to be reasonable and in accordance with the—with the various guidelines we have with them.

Mr. Cullen: I wondered if Manitoba Hydro would make those particular reports available to the committee.

Mr. Brennan: I'm not sure what we're making available. We could tell you the process we go through.

* (20:20)

Mr. Cullen: I think the committee would be interested in the audited reports. Like, once the—once the reports are audited in terms of your expenses on the various projects, whether it be Wuskwatim, Keeyask, I understand the contract's been resolved—once the money's been expended, if we can have an

audited statement of where the money was, how it was spent.

Mr. Brennan: The only audited statements we have are for—are the audited statements that are made public, like, we don't have a specific audited statements. In the case of Wuskwatim, there's a partnership agreement for the partnership itself and there's separate financial statements for that, but—and then they're incorporated and consolidated into Manitoba Hydro's.

Mr. Cullen: Okay. I thank you for that response. So then, just to summarize, if you could show us the funds that have been expended on Wuskwatim and Keeyask to date in terms of the negotiations.

Mr. Brennan: Yes, and I'll also review the process with you and you can have that.

Mr. Rick Borotsik (Brandon West): Just as another comment from my colleague, when you're dealing with the costs of Conawapa and Keeyask, on page No. 75 of the—of the report, the fiscal year-end report, it shows \$88 million that have been identified as capital to the Conawapa and Keeyask generation station. Now, I would assume, and correct me if I'm wrong, Mr. Brennan, but you will have a spreadsheet or an accounting as to how and where that \$88 million was expended on the Conawapa and Keeyask. Am I correct on that?

Mr. Brennan: Okay. It'll just take me one minute. Yes, we would have a breakdown of how that is spent.

Mr. Borotsik: And I think that was the question from my colleague. Can you—can you please provide us with that breakout of the \$88 million?

Now, those, I assume, and correct me again if I'm wrong, that a lot of those would be soft costs, there are no hard costs at that point in time into those two generating stations, Conawapa and Keeyask, so these would be soft costs.

Mr. Brennan: I think—or I'm not sure what a soft cost is. There would be—like there's investigation work going on up there, like physical work, in the case of those two facilities, like—and there's, you know, camps for that and all that sort of stuff. There'd be some of that. There'd be engineering costs in terms of design and that sort of stuff. Now, I'm not sure if that's soft or hard, but we can give you a breakdown anyway.

Mr. Borotsik: Yeah, yeah. Those are development costs. Those are soft costs. Those are not hard costs,

which are construction costs, you know, the bricks and mortar of the actual development, but soft costs are capitalized as well. You can capitalize a soft cost going into the project, and certainly \$88 million seems to be a lot of money initially for this year's capital and it was identified as \$88 million in this fiscal year's capital, and, as I said, it would be easy to identify that, and certainly we appreciate the fact that you can provide that to my colleague and myself so that we can go over what those soft costs are.

Just a couple of comments, Mr. Brennan—

Floor Comment: Can I just say one thing?

Mr. Chairperson: Sure, Mr. Brennan.

Mr. Brennan: We'll provide the thing and then you can make your own judgment on whether they're soft or hard. It seems to me you can't do—you can't build a generating station without engineering costs and stuff like that, so.

Mr. Borotsik: No, and that's very true, but there's also—of that 88 million, I would suspect there's some negotiations also with First Nations. There are also land costs. There are also other costs that would be—would be identified in your spreadsheet, and we certainly can identify where those costs have gone if you provide them to us.

A couple of clarifications, I guess. On page No. 89 of the statement, Mr. Brennan—

Floor Comment: In which year are you?

Mr. Borotsik: Oh, this would be the final statement. This would be 2008-2009, year-end March 31st. On page No. 89, you will notice that under the last section it says: equity retained earnings accumulated other comprehensive income (loss), but the equity at that point in time is identified after the comprehensive loss is 1.951 million. Would you agree that that would be the equity that is identified for Manitoba Hydro for year-end?

Mr. Brennan: No, I don't consider accumulated other comprehensive income losses. Those are adjustments made that floated up and down every year, and, I guess, if it came right down to it, at this point our total equity, retained earnings in the business is \$2 million. But, as you can see, just from a year-end adjustment, it went from the year before at 305 positive to 170 negative. So it can go any way, but I, you know, I'll accept your point. If you say there's \$2 billion in there at the end of 2010 that could go the other way, so.

Mr. Borotsik: Yeah, and we'll talk about the comprehensive income in short order, but, in true, the \$1.95 billion is the equity. You had mentioned that it was \$2.3 billion in equity. Where did you identify that number of 2.3 billion?

Mr. Brennan: It—on our internal statements there's 2.3. You're right if you want to say two, I'll go along with that. I'll change my number to two.

Mr. Borotsik: Well, you did say, and it's in *Hansard*, that it was 2.3 billion.

Floor Comment: No, I agree I said it.

Mr. Borotsik: You—but you've identified that as internal documents. This is an audited financial statement that's been put forward as the actual fiscal—

Floor Comment: I'm agreeing—I'm agreeing with you.

Mr. Borotsik: —but, I guess where I would like to go is what internal documents show 2.3 when, in fact, the audited statement shows 2.1?

Floor Comment: Well, maybe I should take a look at what I—

Mr. Chairperson: Mr. Brennan.

Mr. Brennan: —what we had on June, and I'll see what that number was 'cause I think that's where I got my number.

Mr. Borotsik: Okay, well, the numbers that I'm looking at, 'cause we're not dealing with June statements, as I understand, we're dealing with the fiscal year end March 31st, 2009. So we'll deal with those numbers, and it's 2.120. I, again, believe that under the document that I have it's \$1.95 billion in equity and, even if you use that number with the debt, it comes up to your debt-to-equity calculations using the 1.951.

A couple of—a couple of things, if you want to talk about the comprehensive income, on page No. 91, Mr. Brennan, if you would, please.

Mr. Brennan: Can I come back to that after?

An Honourable Member: Sure. Page 91, the consolidated—

Mr. Chairperson: Mr. Borotsik.

Mr. Borotsik: —the consolidated statement of comprehensive income—

Mr. Chairperson: Order, please. Order, please.

Folks, I would ask in your co-operation to address your comments through the Chair as to give me the opportunity to recognize you. It turns your microphones on an off, if you don't mind?

Mr. Borotsik, continue.

Mr. Borotsik: I apologize, Mr. Chairman. Yes, I will—I will attempt to do that. I sometimes get on a roll and forget, as Mr. Brennan had earlier. So we will attempt to do that.

On page No. 91, now, and you say that comprehensive income—as I understand, the comprehensive income is a window of time. However, if you'll notice the unrealized foreign exchange losses for the period 2009, Mr. Brennan, where \$439 million—the total net loss is \$474 million on the comprehensive income losses.

Mr. Brennan, would you like to explain exactly the \$474-million loss has been accumulated through the hedges, the foreign exchange and the debt in cash-flow hedges?

Mr. Brennan: The unrealized foreign exchange losses on debt represents what would happen if the debt was denominated right at that point in time, regardless of whether—no matter when the debt comes due.

So this is a book number that fluctuates and, as you can see, in 2008 it went the other way of 229 and, now, negative 439. So that floats all over the place and that's what it is.

Mr. Borotsik: I appreciate that, Mr. Brennan. You've got almost \$8 billion in debt and it does float all over the place. Economists are suggesting right now that the American dollar will continue to slide for the next number of years meaning the Canadian dollar will gain in strength.

In your opinion, over the next five years, how is the Canadian dollar going to impact your operations in Manitoba Hydro?

Mr. Brennan: For the most part it doesn't impact us. For the most part we—and that's why this is somewhat misleading. What we do is we match our cash flows coming in and out and make sure that amount of cash we have in the future equals—coming in—equals the amount going out. So we try to make sure that our American sales equals the amount of debt we have, and the cash flow is supposed to match and that's—so, therefore, we don't—we're in the fortunate position of not having a problem when the actual cash matures.

* (20:30)

Mr. Borotsik: If we can, in less—

Floor Comment: I think that's explained—

Mr. Chairperson: Mr. Brennan, conclude your remarks.

Mr. Brennan: I'm sorry. I think—you know—I think Mr. Borotsik took some blame for talking inappropriately. I think the real problem is me, not him, so—

Mr. Borotsik: Well, if I can, then, let's talk about cash flow. There is a legislative requirement, Mr. Brennan, for contribution to the sinking fund. There's a sinking fund. There's a legislative requirement of 1 percent of debt and 4 percent, I believe, of the value, and there was a contribution this year of the sinking fund of some \$124 million, if memory serves me correctly. On page 100, Mr. Brennan, if you're going to be looking at that page, there was a calculation of \$124 million that was invested into the sinking fund legislatively.

You will notice on the cash flow statement on page No. 90 that there was a withdrawal from the sinking fund of some \$261 million. There was not a withdrawal the previous year. There was a withdrawal in this fiscal year. Two questions: No. 1, is there, under which legislative authority is there to withdraw money from the sinking fund; and the second question would be is why was there a requirement to withdraw \$261 million from the sinking fund in this fiscal year?

Mr. Brennan: Manitoba Hydro usually takes money out of the sinking fund when the debt that is being matured relates to that which is in the sinking fund. So we take how much is in it and usually apply it against that debt that matured.

Having said that, there's—I don't think there's a major requirement as to how much can come out and for what reasons. But I'll get the details of what we're supposed to do legislatively, and like we follow that—so. As a matter of fact, our sinking fund investments and our debt is managed with a committee with the Province that meets periodically.

Mr. Borotsik: Yes. As for the debt, I believe it was \$519 million that was maturing. It was the current portion of your long-term debt, was \$519 million. Of the \$261 million that you took out of the sinking fund, did that go directly to the matured—to that debt that was being matured?

Mr. Brennan: I'm not sure what the breakdown is, but that's what I was trying to say.

Mr. Borotsik: And the additional of the long-term debt, the \$519 million that matured—if you're saying \$261 million was taken out of the sinking fund to pay that back, how was the other \$300 million or \$250 million paid?

Mr. Brennan: It would be paid through internally generated funds of profits and that sort of thing and new debt. If you take a look at the source and application of funds statements on page 90, you can see that the proceeds from the long-term debt—well, first of all, we generated internally through our operations \$700 million. We got \$400 million in new debt and retired old debt of 366, and then we made investment of \$1.1 billion.

Madam Vice-Chairperson in the Chair

Mr. Borotsik: Yeah, and there's been substantial debt this fiscal year over last year. As a matter of fact, there's about a 6 percent increase in debt. It went up to \$7.6 billion after all of your other calculations. There was 7.2 to 7.6. Is that difference operating debt, Mr. Brennan?

Mr. Brennan: First of all, there's no operating debt. We only generate money internally. We generate enough cash usually to pay our regular capital. We have enough internally generated funds in virtually every year to take care of our ordinary capital, other than new generation transmission, that we borrow for. But all other cash that we require for maintaining the system, replacing the system as it wears out, is all taken care of by internally generated funds. And, as you can see from the statement on page 9, \$700 million was generated internally in 2009. In 2008, it was 633.

Mr. Borotsik: Going to the consolidated financial statement on page No. 87, can you point out, please, where the revenues—where your expense is with respect to the payback of that debt?

Mr. Brennan: The payback of debt will not show up on the operating statement. You only have interest on the operating statement.

Mr. Borotsik: Yes, there's \$439 in interest, plus there's a depreciation and amortization which is a non-cash item. Is the \$374 being identified as payback on that debt?

Madam Vice-Chairperson: Mr. Brennan.

Mr. Borotsik: Million; 374 million. Millions, dollars.

Madam Vice-Chairperson: Okay, Mr. Borotsik, to finish your remarks. Are you finished?

Mr. Borotsik: Thank you.

Mr. Brennan: I can see I'm going to be in line now. Yeah, if you take the 300 million at the net income, add back the 374, that's a good point—a good part of the 700 million that we were talking about before. So you're correct.

Mr. Borotsik: The revenue side. We've already talked about risk. We've talked about the extraprovincial revenue. Currently, on this fiscal year, and your extraprovincial revenue, particularly in the U.S., was down. Previous was 515 million, it's now at 491 million on this statement. Projections for the next fiscal year and the fiscal year after that, knowing full well what's happening currently in the marketplace—we know what the first quarters are for this fiscal year—where do you see the extraprovincial revenues going for the next 18 to 24 months?

Madam Vice-Chairperson: Just prior to recognizing the next speaker and question, I just wanted to ask, can we recognize this question and then we would—we're asking if it would be possible—the honourable minister?

Ms. Wowchuk: I would just ask that if we could take a couple of minutes break so the computer could be packed up and those things put away so the individual at the back of the room, who is responsible for them, can clean them up, and that would give us a couple of minutes break, and then we can return and be on his way—he can be on his way. Is that okay?

Madam Vice-Chairperson: Just prior to doing that though, I would like to ask Mr. Brennan to answer the question so that we don't forget where we were.

Mr. Brennan: I forgot the question.

Mr. Borotsik: Yeah, the question was about extraprovincial revenues that were generated. They seem to be going south quite rapidly, and if I recall the comment Mr. Brennan made at one point in time, he said that we will make it up in a hurry or we will make it up.

My question is, how is it going to be impacted over the next 18 to 24 months based on the economics that we see now currently, and how are you going to make that up in a hurry?

Madam Vice-Chairperson: Okay, Mr. Brennan to answer and then we will take a five-minute break.

Mr. Brennan: First of all, our net income will be down. It'll still be positive and reasonably good. It won't be as high as we otherwise thought it was going to be. As I mentioned earlier, our export revenue is down appreciably from where we thought. Having said that, and it'll probably be down from last year's forecast for this year—for next year as well, it'll be down a little. I would expect it to turn around the year after that, though.

Madam Vice-Chairperson: Thank you. So if we could take a five-minute break and return at 8:45, please. Committee recess.

The committee recessed at 8:39 p.m.

The committee resumed at 8:49 p.m.

Mr. Chairperson in the Chair

Mr. Chairperson: I call the standing committee back to order and the floor is now open for questions.

Mr. Borotsik: Just one more and then I think Mr. McFadyen wants to jump in with a couple more questions.

Just a clarification. This goes back to your explanation of the difference between a term sheet and a contract, and, as you said, the term sheet's more like an offer to purchase where a contract is a sales agreement to purchase, and I can understand all that. You also talked about base price in the term sheet and you talked about escalators.

* (20:50)

Can you tell me what would trigger an escalator on a base price going forward?

Mr. Brennan: It's basically whatever the escalator is based on, which is usually various components like electricity prices, CPI, and it's usually some sort of a composite index of some sort, and it would go up the same rate as—let's say it was CPI—it would go up the same as CPI.

Mr. Borotsik: 'Kay, so you would have these escalators identified in the term sheet. You would have a base price identified in the term sheet, so this is like a—as you said, an offer to purchase. It was pretty much an option to purchase, if you will, at this point. So you'd have a base price and then you'd have escalators identified, and those escalators would be

CPI, inflation rates, could be other escalators of which we don't know what are in the—in the term sheet right now.

But the proposed purchaser, if they didn't agree with the escalators or the number that went forward at that point in time from Manitoba Hydro, could they then not enter into a sales agreement at that point? Could they then walk away from the table if they didn't agree with the escalators and the—and the value of those escalators?

Mr. Brennan: No. The escalators have been approved in the term sheet.

By the way, it's not an option to purchase. It's a commitment to purchase.

Mr. Borotsik: And I would hope that's the case, but I did hear, I believe, when you were discussing this earlier, that there were out clauses within that term sheet, that purchaser and seller could, under certain circumstances, get out of that arrangement and that agreement. Was I wrong in hearing that?

Mr. Brennan: It's subject to various type of approvals, like regulatory approvals and the like.

One of the main issues associated with it will be the building of the transmission. That's really, really important to us. Having another transmission line into the States is just—I can't tell you how important that is. We're able to export more power, we get more markets, we get more ability to export [*inaudible*] and at the same time, we can import more power.

Mr. Borotsik: You say it's—the term sheets again, or the agreement that you're entering into, to these extraprovincial agreements, does have a dependency on regulatory requirements.

Currently in the U.S.—and about three years ago, we would have never heard of items such as COOL, country-of-origin labelling, would have never heard of Buy America, we would have never heard of the protectionism that's going on currently. Clean energy is another buzzword that we have currently in the U.S. We have clean coal, which is another buzzword currently in the U.S.

And I guess the point I'm trying to make is, should the U.S., the federal government in the U.S., place regulatory roadblocks in front of your prospective customers currently, could that happen and could those sales go south on you?

Mr. Brennan: Yes, they could. I don't think there's any doubt about that. I think it's especially concerning as it relates to transmission. Transmission is not really easy to build and—in the—in the States. Now we're getting all kinds of changes now because of the new president's desire to have more transmission in the United States, so that might help.

But transmission is a pretty major issue of building it, and that's so important to us. That's as important as building a new plant; you know, like, it really is a key. Any transmission line we've ever built outside the province has really been important to Manitoba Hydro.

Mr. Borotsik: Yeah, there are some changes of attitude, certainly, in the U.S., which is your major customer right now with extraprovincial power sales.

And we do know, and you'd mentioned earlier, the reason why we're losing revenue currently from extraprovincial sales is because of the price of gas, which we don't know what's going to happen in the next year or two years or three years. We certainly have wind power that's moving into jurisdictions in the U.S. now and not happening in Manitoba, but that's a whole different topic for discussion and I'm sure my colleague will touch on that, but we also have other alternatives with respect to power being generated in the U.S., and I guess I would be a little concerned, as a resident of Manitoba dependent upon Manitoba Hydro to generate revenues, whereby there are these red flags and danger sitting on the horizon right now and a lot of capital is being invested currently by Manitoba Hydro and certainly projected to be invested by Manitoba Hydro.

And I guess my question is just: Are you, Mr. Brennan, as the CEO, 100 percent convinced that the potential sales and, they aren't current sales 'cause we're not generating and we're not sending any of this new proposed power to the U.S., are you 100 percent convinced that those markets will be there when this Wuskwatim and Keeyask comes on-line?

Mr. Brennan: Okay. First of all, we're able to sell Wuskwatim power relatively easy. We can use it for our own load. It's a small plant, so it doesn't have the same consequences. But a large plant, in my opinion as the President of Manitoba Hydro, should have some part of it committed to—it either has to be built for the Manitoba load or it has to have good, firm contract associated with it or it should not be committed.

Mr. Borotsik: In your statement, you're suggesting that we have 500 megawatts of power that are being sold to Wisconsin public services over the next 15 years, starting in 2018. So that's power that's being generated from which generating station? Is that the proposed Keeyask?

Mr. Brennan: Yes.

Mr. Borotsik: That's 500 megawatts per year over 15 years?

Mr. Brennan: It's phased in at the beginning.

Mr. Borotsik: Can you explain what the phase-in is? It shows here that it's 500 million per year over 15 years. Can you tell me what the phase in is?

Mr. Brennan: I'd have to get it for you, but it's phased up, and at the end it's phased down.

Mr. McFadyen: Just a couple more questions. I just want to ask Mr. Schroeder just in connection with board governance, that is just by way of background first, it's the practice of some Crown corporations in this province and in other provinces to make board minutes public. That's not currently the practice of Hydro. There are requests in for copies of board minutes for Manitoba Hydro.

I wonder if Mr. Schroeder could just indicate, confirm, a) that minutes are kept at board meetings and indicate whether he is prepared, as chair, to have those minutes publicly released for board meetings going back to 2004 which is the date that was, I believe, indicated in the FIPPA request.

Mr. Schroeder: Yes, Mr. Chairman, minutes are kept, and we would be prepared to release them subject to any potential requirement to keep any part of it for some legal reason that I'm not aware of.

Mr. McFadyen: Thank you, and just as a matter of practice on a go-forward basis, I know that there's at least one other Crown corp that regularly posts their board minutes on-line. Is that a practice that you'd be prepared to support for Manitoba Hydro on a go-forward basis?

Mr. Schroeder: Mr. Chairman, we have been discussing that and I think that's a good idea.

Mr. McFadyen: And just a couple questions, just on bipole, and probably to Mr. Brennan on Bipole III: Are there any updated estimates of costs, construction costs, in relation to the three options now being considered in the public consultation process beyond the last estimates that we were provided?

Mr. Brennan: We're not proposing to look at the estimate till we have the route finalized, I guess, would be the best way.

Mr. McFadyen: Would you be able to provide an estimate of the construction costs per kilometre as a general estimate for bipole transmission lines?

Mr. Brennan: We'll give you the one that's included in the estimate now.

* (21:00)

Mr. McFadyen: And, Mr. Brennan, are you able to estimate the maintenance costs per kilometre of a bipole transmission line?

Mr. Brennan: I think we should be able to come up with some kind of estimate.

Mr. McFadyen: And could you indicate whether there are estimates of the—what municipal taxes or payments in lieu of taxes would be incurred in connection with the three west-side routes?

Mr. Brennan: I—none of those routes—like, those are corridors so they're not routes, so it's—I don't think—like, we don't know where the actual line's going to go. Like, I think we could give you the cost per kilometre. I guess it's a function of, you know, the assessed value of the land as you go through, so I don't know if we can come up with some kind of estimate, but we could try.

Mr. McFadyen: So is it—would it be right to assume that municipal taxes or payments are not included within the current estimate of the cost of those projects, of the Bipole III project?

Mr. Brennan: It'd be included in our operating forecasts, you know, our projected operating statements. In terms of the capital costs, anything that's paid during the period of construction would be capitalized.

Mr. McFadyen: Just in terms of the current public consultation process, we've had reports back from a number of them, and I commend your staff who are leading that consultation process, and my understanding is that they've met with a great deal of criticism from many of the communities that they've presented to. Will Hydro be releasing any detailed reports that capture the concerns, questions and comments that are raised through the consultation process that would be publicly available?

Mr. Brennan: I'm not even sure what that entails, so I think I'd have to look at that. I don't think I'd like

to—I don't think I know enough about the whole process to be able to make a comment on that.

Mr. McFadyen: Maybe just to be more specific, I know, in other government consultation exercises, very often there's a what-you-told-us report very often issued that captures the comments that come from the public through the process. So I think, to be more specific, we're asking whether that type of report may be issued at the conclusion of this round of consultations, and I won't ask you to respond to that, but just put it forward as something that we would like to see, and if you'd be prepared to, when you get the opportunity to speak to your staff, indicate whether something like that might be forthcoming. That would be, I think, really helpful. So that's not a question. That's just my editorial comment. Let me just—

Floor Comment: Can I answer it anyway?

Mr. McFadyen: Sure, by all means; by all means.

Mr. Brennan: I am prepared to look at it. I think any time we can make any of our processes better, we should.

Mr. McFadyen: And just on a, just a staffing question. Is it the normal—is it a requirement at Hydro that when somebody's hired that there be some form of competition?

Mr. Brennan: Usually, yes.

Mr. McFadyen: Just in connection with one particular hire. In 2006, a gentleman named Tom Milne was hired by Manitoba Hydro, as we understand it, as a special projects representative within the purchasing department. Can you indicate whether there was a competition for that position, for that hiring?

Mr. Brennan: I'd have to check, but I think that was a contract job.

Mr. McFadyen: And was there a request made to you, Mr. Brennan, by the government to hire Mr. Milne on that contract?

Mr. Brennan: No.

Mr. McFadyen: Would you be able to just indicate or provide the details on that contract, the start and the finish date, what he was paid, when he left, and exactly what was entailed in terms of the services he provided to Hydro in connection with that contract?

Mr. Brennan: I—as long as there's nothing I don't know, you know, that I shouldn't be doing, you

know, as long as it's something we normally do with a contract, I'll do it. Yeah.

Mr. McFadyen: The—just one last question. Just in meeting with residents in Gimli and up and down the west side of Lake Winnipeg and also some residents and cottagers on the east side of the lake, concerns—and I know this has been an issue for many years—but concerns raised with me about water levels on the lake, there's a feeling that Hydro is contributing to higher water levels than what a lot of people would like to see on Lake Winnipeg. There's been erosion. There's issues around shoreline damage whenever there's a big wind storm in the late part of the summer and, I wonder, Mr. Brennan, if you can just respond to those concerns in terms of Hydro's operations and their impact on lake levels and whether there's anything that can be done to address those concerns and comments.

Mr. Brennan: This—if this is a major issue, there's no doubt about it. It's one that I find, personally, troubling. I have a cottage and, you know, I don't experience that kind of problem. You know, I've a rock shoreline and that sort of thing. You know, so I don't experience it, but I certainly feel for somebody that has that problem. You know, just see it and, in '96 or '97 we had a major storm that was late in the year. It was freezing. It was October, November and often the pictures were just horrible. So, I think, like I'm definitely have concerns.

Erosion on Lake Winnipeg is a natural phenomenon and from what everything I've led to believe that Manitoba Hydro really helps this situation. Those people with cottages do not accept that one little bit, and I—and I feel for them. But you do get a north wind, and with the wind coming down from the north basin, and it's at seven—it can be at 712, and the waves can be as high as seven and eight feet. So you've got a problem.

So Manitoba Hydro tries to keep—as soon as we know that the lake is going anywhere near the upper limit that we have, we open the gates. So they'd be open before, you know, seven—715 by at least a half a foot.

So, I think, by what we're doing, we're really trying to help the thing, but, honestly, I really—I think the solution's got to be something different than regulating the lake. But I think it is—it's a shitty problem. It really is. It's horrible for some people that's made an investment and then loses part of their investment.

You know, and some of the solutions to fix it are pretty major, and they'd fix it if you do it right.

Mr. McFadyen: I'm good.

Hon. Jon Gerrard (River Heights): Let me start with a few questions about the consultant, or the whistle-blower, depending on, I guess, which side you're on in this issue.

Now, you—the first question would be: Did you personally fire the consultant or whistle-blower?

Mr. Brennan: We never fired the consultant at any point.

The situation was, as Mr. Schroeder pointed out, we had a contract for a—it was virtually a one-year period—and when the contract expired, well, three months before it expired, we said we're not going to renew it.

Okay, then, in terms of management, trying to get the—and talking with the board of Hydro and trying to get our hands around the issues, we hired the same consultant to give us answers, and we weren't going. So—and those were done by contract.

* (21:10)

When we told her there was gonna be no more money available was when she completed the last contract with us, and we still weren't comfortable. And so we just said we weren't extending the contract. So, no, was—no time was she fired.

Mr. Gerrard: Now, is it true that there are only one or two of your employees who know the programming or the source code for the software which controls the power grid?

Mr. Brennan: Not to my knowledge.

Mr. Gerrard: Approximately, how many people would—in the Manitoba Hydro—would know the source code?

Mr. Brennan: Oh, I really don't know the answer to that at all, but we have a lot of people working on computer operations; they'd be in the hundreds. But, you know, as a relation to that one specific system and there's knowledgeable—but, we could—I'm sure we could always have more people with knowledge in all kinds of areas. Like, we have some jobs at Manitoba Hydro where the individuals are known internationally as being people with a real knowledge. Well, some of those people are really, really hard to replace. But we will get to find out about all that. But I don't know the answer to it.

Mr. Gerrard: The primary computer which controls the power grid, when would that computer have been purchased?

Mr. Brennan: Computers are not the issue; it's more the operating systems that run 'em. And the one that operates our system was developed brand new for the Y2K problem in 2000. And that system, when it was installed, was designed to be an evergreen-type project so that we wouldn't have to go through that development; we're always gonna have a nice, fresh program, so as to be—it is a very sophisticated program and a very good one, as far as I could see. That was developed the same time we built the new control centre as well. It was all part of one project.

Mr. Gerrard: So the—that would be the software. And then the hardware was built when?

Mr. Brennan: The hardware is replaced continually. That would have a very short lifespan.

Mr. Gerrard: There's—the consultant apparently has pointed out some significant potential in-future losses. Can you help us understand what was—areas where there could be potential future losses?

Mr. Brennan: I think the two biggest issues we had, we asked ICF to take a look at, and they came back and said we're doing the right things, and that was in the question of fixed-price contracts and then the impact of a drought and the like, and I—I—I don't see how—we know that a drought is gonna cost us a lot of money. Like, that's a given. If you don't have that generation, it's—you can't sell it, so we're gonna have that problem.

I think in the current IFF we're looking at, I think the amount of a drought that was the same as a period of '89, '90, '91—in that period, five year-period, if the drought was the same amount as that, I think it would cost us 2.4 billion or something. So that'd wipe out our equity. So it is a significant one, but the equity has been gradually building up and whether it's comprehensive income or not, but we'll see where it is at the end this year.

But in any event, Manitoba Hydro's in pretty good financial position, despite Mr. Borotsik's comments. I'm really quite pleased with where we are. We have the lowest rates in the country and the highest reliability. And I think that's good.

Mr. Gerrard: That there's a risk if the Bipole III is not built and in place by, I think it's 2018, can you talk about the nature of that risk and the extent of that risk if Bipole III was not built by 2018?

Mr. Brennan: Yeah, I think we have a risk until it is built. If we have a problem with the existing transmission lines, we do not have enough southern generation to meet the Manitoba load, and that's just a given, so we'd have to buy. And we're taking various other actions to make sure that the—you know, we can bring the load into the southern part of the province and doing work at Riel and that sort of stuff to terminate the 500 kV line there. And so we're doing things to improve the system, but it is important we get another line coming down from the North, and including conversion equipment, for that matter.

Mr. Gerrard: Are there specific risks in terms of contracts which are in place? That if that line is not built, that there would be a problem?

Mr. Brennan: Until we build new generation, the line is really redundant to our system. Like, we got existing transmission to take care of it. The real problem is if something happens to that existing line and it comes out of service.

Mr. Gerrard: I wonder if you could take us through the time line. You've now got three corridors. You've got a fourth consultation which will occur when you decide on one of those corridors. What's the time line for deciding that fourth or the, you know, deciding the—which corridor it will be, the time line for the fourth consultation, the time line for deciding the precise route, the time line for doing the environmental impact statement, the environmental licensing and construction?

Mr. Brennan: I have a hard time appreciating the length of time it does take. You know, like it's hard to—hard for me to really fathom it, to be honest. But in the spring, we hope to have the third round completed. Then we come back with the corridor that we want, and then we get—or pick, within that corridor, a line. And it's my understanding we hope to have everything all completed early in the 2011. But this whole process has been going on for a real long time. It's just—well, to me, it sure would be good if we could go faster.

Mr. Gerrard: So if the route, the precise route, is decided for early 2011, there then has to be an environmental impact statement and an environmental licensing process. What's the timing for that?

Mr. Brennan: I'd think I'd have to dig all that stuff out for you 'cause I'm not real close to it all. I think

we have to have everything ready to go, I think, in about three and a half years to get everything built.

Now, you don't want to spend any money before you get a licence of any consequence, so that'll be the big thing. But, we will—I think it's three, three and a half years or something like that, but I'll confirm that, Mr. Gerrard.

Mr. Gerrard: So that the estimated construction would start when and be completed when?

Mr. Brennan: Well, 2017 is when we want everything complete, to be in service in 2017.

Mr. Gerrard: So if you come back from that, that would be sometime in 2013 when you would hope to start construction, if it's three and a half years. Is that right?

Mr. Brennan: That would be my guess, but I would—I'll confirm it for you and give you a complete schedule.

Mr. Gerrard: Just in terms of potential future losses and liabilities, there are existing agreements with First Nations communities around the Grand Rapids dam, the Northern Flood Agreement, Wuskwatim. What's the situation along the Winnipeg River and the dams that were built there which are now part of the Manitoba Hydro system?

* (21:20)

Mr. Brennan: I think, from Manitoba Hydro's perspective, we don't have any obligations. Some of the communities, you know, Sagkeeng or something, might think otherwise, but we've been working with Sagkeeng over the years. We've had ongoing discussions with them as to whether we have impacted them in the past or not, and everybody won't hire to consultants continually and, you know, it really wasn't working out very well, so we developed an accord with them to see if we could work something out to try to help them and, at the same time, keep it relatively small and, relatively, in terms of the—and we've gone through a period with that and we're talking about a new one. So I think some of the things we've done in terms of trying to make sure people get the opportunities to work on some of our projects, to specific contracts, and the like, and jobs within Hydro are good ways to go.

Mr. Gerrard: And environmental, you know, liabilities and concerns. Take the Winnipeg River, for example. I mean, it's a well-known fact that when you put a series of dams there, you don't have as much silt coming down the river and it's not

deposited at the mouth of the river, and that would appear to be one of the changes that's happened at the mouth of the Winnipeg River so that it's not silting up, it's not as shallow anymore, it's got a lot more erosion right at the mouth than it used to have. I was, well, near the school in Sagkeeng one day this year. It eroded back, I think it was 42 feet on the bank at one site.

So, you know, are those sorts of potential environmental liabilities included?

Mr. Brennan: I think Manitoba Hydro's position on that would be there's natural erosion that occurred on the Winnipeg River, and it's been going on for years and years and years before the plants. So I think it doesn't necessarily have to be Manitoba Hydro's responsibility. But I can tell you, we don't have any liability set up for that issue.

Mr. Gerrard: Yeah, I'm, as you know, have been a proponent of looking carefully at a line under Lake Winnipeg as an option for a major transmission line from the north. Can you give us an update on—has there been a consultant's report and what did it say?

Mr. Brennan: Yes, we had a consultant look at the issue and came back and agreed that—or thought that issues associated with an underground line were very, very extensive. From my perspective, it's a lot like the issue we have before us today with the grieved consultant. It just wasn't clear to me that, in the long term, that something shouldn't be looked at to see if we can make that work. And we got a committee now looking at it. We got some experts involved in it. Mr. Ryan is helping us out. And I'm hopeful that some of the major issues, like the transporting of the cable, and that sort of thing, will come out of that and we'll get some good results as to where we should and how we should proceed in the future.

Mr. Gerrard: On the underwater line, it—what you're saying is that the consultants didn't actually give you a very good answer and that you're now moving on to the committee because you need a clear answer?

Mr. Brennan: I think what I'm saying is that there's issues associated with it and somehow I think we need to talk to manufacturers and people that transport cable and see if some of those issues—like, maybe at the end of the day there should be some kind of research project or something to do it. Like, it's not my field for sure, but I do think we should try

to investigate that technology further and look at it in a more thorough way.

Mr. Cliff Graydon (Emerson): My question would be to just go back and recap and get a better understanding of what was said. I'd like to go back to Mr. Schroeder's comment when he said that the Auditor—when they did the audits of Hydro, the yearly audits, that there was a representative from the Auditor General's office at those meetings. Is that true?

Mr. Schroeder: What I said was that at most meetings, if not all—I know that at one meeting there wasn't a member from the Auditor General's office present, but, generally speaking, all of our audit committee meetings had—have the presence of a member of the Auditor General's office. So that doesn't include just the once a year when we have our audited statements; it includes the regular meetings of the audit committee.

Mr. Graydon: Thank you for that explanation. I appreciate that because I did think it was just one meeting, but it's at all of the meetings. My question would be to the minister. If in fact this representative from the Auditor General's office is present at all the auditing meetings of Manitoba Hydro and the Auditor General worked for Manitoba Hydro when the consultant began the consulting process and, with all due respect, Madam Minister, we have respect for that office, for the individuals that are in that office. The comments that we made in the past are accurate and correct. You've repeated them many times tonight. We thank you for that because we do agree with you, but, at the same time, it's not now a perceived conflict of interest, it is a conflict of interest, and I would suggest, Madam Minister, that you have to address that. How would you address it?

Mr. Schroeder: Well, Mr. Chairman, first of all, I've played some sports and you don't sort of criticize who the referee is, so we leave that alone, but these people are professionals. They come to the meeting. They provide advice that's—let's keep in mind that there were no complaints by this contractor during the time Bellringer was on the board or on the audit committee. None. The board had never heard of this person when Bellringer was on the audit committee at all, had nothing to do with the contract. It was just a standard contract that was entered into by middle-level management, approved through the regular system without going to the board. So this wasn't something that had ever been across the desk of

Carol Bellringer while she was on the audit committee or on the board of Manitoba Hydro.

Mr. Graydon: Madam Minister, Carol Bellringer was an auditor at Manitoba Hydro. Whether it crossed her desk or whether it didn't cross her desk she was still employed in a capacity that the information that was generated at that time was generated by Ms. Bellringer. That's certainly been brought to the table to the board. I understand that there would've been no communications directly. Of course there wouldn't. The consultant was hired by the management to do a job, and that particular report did not become available into December, well after Ms. Bellringer left, but the information that the consultant was working with was information that was generated by the Auditor General. Going forward—going forward, Madam Minister, at every auditor's meeting, every meeting that dealt with auditing with Manitoba Hydro, as indicated by the chairman of the board, that there was a representative from that office.

* (21:30)

I understand that they are professionals. At the same time, you do not grade yourself. You do not give yourself a mark of 100 percent with—and that's exactly what you're doing in this situation when you—when you ask the Auditor General to grade herself in this situation. And yes, there is a conflict of interest.

Mr. Schroeder: Mr. Chairman, Carol Bellringer was never an auditor with Manitoba Hydro.

Mr. Graydon: I think I've made the point well enough that I probably won't get the minister to admit that there is a conflict of interest. Will she admit, then, that there is a perceived conflict of interest by the public and Manitoba?

Mr. Chairperson: Mr. Schroeder—Minister; one of you has to indicate to the Chair who wishes to answer.

Ms. Wowchuk: Sorry. Mr. Chairman, I think we—and I apologize for that—we've been through this many times. We were at the—at the public accounts committee when the Auditor General spelled out clearly what her role was on the audit committee, when information was brought, and I will quote when she—what she said: And also there was the involvement of the consultant which had triggered certain of the allegations and my understanding she was actually hired while I was on the board in '06. But her and any that she—that she—I'm using she because it was the gender has been referred to in the

media, they were received by Manitoba Hydro after my involvement on the board, and we have—will be inquiring for a lot of information to verify it.

So she has indicated that the information related to the whistle-blower came—was brought to Hydro after her involvement and, you know, when people take on jobs like auditor generals, they take—this is an independent office. When issues come to their attention, they look at each issue and if there's a conflict, they bring it—make it known. And Ms. Bellringer said at this committee that she had checked with her counterparts, with the chartered accountant association, with counterparts in other provinces, gave all the details, and that she was advised that there—as was her opinion, she was not in a conflict, and I respect her for that. And I respect that she will look at this information in a fair and unbiased way and use outside helpers, bring in outside expertise to help her through this and bring forward to us a final report.

Mr. Graydon: Madam Minister, there was letter tabled here tonight that indicated clearly that Ms. Bellringer, dealing with a different situation with Manitoba Hydro, said that I can't do that because I'm in conflict of interest. But now there isn't a perceived conflict of interest. So obviously it's difficult to get the minister to say, yes, there is a perceived conflict of interest, and to deal with that going forward.

So, going on to a different topic, I would like to ask Mr. Brennan a question relating to a comment that he made about the whistle-blower and some of the issues she had, and those issues are related. One of the issues were related to computers and computer programs. A number of large companies, much like Manitoba Hydro, and I'll use TransCanada PipeLines as an example, have a computer system that indicates the potential for consumption, the need for consumption, the need for building the infrastructure to transfer that product. They have a computer program that shows that particular need. Does Manitoba's software have that same type of capacity?

Ms. Wowchuk: Just before Mr. Brennan answers that question, I would like to just clarify with you, Mr. Graydon, you said that a letter was tabled this evening, and a letter was not tabled this evening, but if you would be prepared to share that letter with us, I'd like—we did not—the letter was not tabled.

Mr. Graydon: The offer to table the letter was very clear and should be on *Hansard*. [interjection] Pardon?

An Honourable Member: You said it was tabled.

An Honourable Member: It was tabled at Public Accounts, but we can table it again if you like.

Mr. Brennan: We have a—[interjection] Sorry.

Mr. Graydon: Mr. Chairman, I'll take the opportunity to table the letter dated August 14th, 2008. I don't think I need to read it out to you, but it's clear in the letter, and perhaps I can read that part: Prior to my appointment as Auditor General in July of 2006, I was a member of Manitoba Hydro board, and thus neither I nor my staff are in a position to follow up on your request as an independent auditor. This was August 14th, 2008, Madam Minister, and I will table this.

Mr. Chairperson: Mr. Brennan, to proceed, sir.

Mr. Brennan: Manitoba Hydro, in terms of forecasting additional load, we have quite a few systems that will do that. There's—some of them interrelate and some of them do the same thing, but there's a good number of them.

Mr. Graydon: If I—if I understand correctly, and I'm sure that you will agree, that Manitoba Hydro was formed to supply Manitobans with a reasonable priced power, first and foremost. Do you expect any significant increases in the next five years?

Mr. Brennan: Our load growth is growing, approximately 1.5 percent a year.

Mr. Graydon: One point five percent, but when we—when we take a look at the history up to this point, for the last couple of years it's been considerably more than that. It's been 2.9, and the PUB says you need 5 percent in a year. Are we—are we short-changing ourselves looking forward or are we going to have enough money generated to cover the expenses going forward without export income?

Mr. Brennan: You know, I think I misunderstood your question. I think that was my fault. You were talking rate increases and I was talking load growth. So maybe—I think I have to back up a little, and maybe you could repeat your question, 'cause I definitely think when you tried to describe your question further you were talking rate increases and I was clearly talking about the growth in actual load in the system. So if you ask your question again, I'll try to answer it.

Mr. Graydon: Just maybe changing gears a little bit. We've had a number of proposals or a number of announcements that there would be a considerable

amount of wind power developed in the province, and if I understood your presentation right tonight, that the project has been downsized to 138 megawatt? Is that correct?

Mr. Brennan: The contractor who we're talking to thought that the most—the most attractive position for him was to have a project one-third—of 138. We're prepared to purchase up to 300 and the contractor wanted us to buy 138. We'd looked at it and we agreed that we'd be happy to purchase the 138, and if he had 300, we'd buy that. There's various costs he has to incur and I think he, the contractor, decided it'd be in his interest to keep it at 138.

* (21:40)

Mr. Chairperson: Mr. Graydon.

Floor Comment: So that was not a Manitoba Hydro decision, other than us agreeing to purchase it.

Mr. Chairperson: The Chair is going to have to hesitate a little longer, make sure all the answer is complete.

Mr. Graydon: The announcement was clearly 300. There were a number of participants in the bidding process. If it was Manitoba Hydro's desire—if it's Manitoba Hydro's desire to have 300 megawatts, have you approached other companies to pick up the remainder, the other 162?

Mr. Brennan: I'm sure there'd be lots of contractors that would like to sell us additional wind power. The question is the price. Manitoba Hydro is very concerned as to whether we pay a price that's good for Manitoba customers, and we don't wanna pay too much and that's an issue. They're competing with low-cost hydro. We got the lowest prices in the country, and it's hard to compete in Manitoba, it really is.

Mr. Graydon: My meeting with the proponent of the—of the project that was—took place some time last summer, indicated that they were having some serious financial difficulties, and the difficulties centred around the interest that they had to pay, and of course they didn't have an agreement, a signed agreement with Manitoba Hydro. The signed agreement apparently hasn't been done yet for the purchase agreement?

Mr. Brennan: Manitoba Hydro is prepared to sign.

Mr. Graydon: Is Manitoba Hydro prepared to sign at a cost that the contractor can build it at and produce it for?

Mr. Brennan: We're prepared to sign it at the negotiated price. I don't know, that's the price that is—was negotiated by both sides; we're prepared to sign now.

Mr. Graydon: Would that price be comparable to the price that's being offered in Ontario?

Mr. Brennan: I sure hope not.

Mr. Graydon: Is Manitoba Hydro prepared to help finance the contractor?

Mr. Brennan: We've—we haven't looked at that at all. We've never considered that to be an option.

Mr. Graydon: So you're saying that the contractor has not approached you for financing?

Mr. Brennan: No, nobody's approached me. It hasn't come up to me that the—somebody would want financing. I don't doubt they would though.

Mr. Graydon: Mr. Schroeder, has the contractor approached the board for financing?

Mr. Schroeder: No, they have not. You know, maybe they've just located a negotiator.

Mr. Graydon: Mr. Schroeder, would you be interested in financing that particular contractor? I might become a negotiator.

Mr. Schroeder: I'd prefer not to negotiate in public.

Mr. Graydon: Madam Minister, has the provincial government been approached by this particular proponent even after the downsizing, has he approached you for a—for a certain amount of financing in any fashion?

Ms. Wowchuk: As you well know, this project has been very slow in getting off the ground and there's been a couple of things that have affected that. That's been the downturn in the economy and there has been a downsize in the project, and the company has—we have had discussions with the company about the project, yes, we have.

Mr. Graydon: And are you prepared to—prepared to help them financially?

Ms. Wowchuk: As with any project and any that comes to the government, it has to be reviewed, and you have to look at the financial balance sheet, the business plan of the corporation. We have staff looking at it, but there is no doubt that part of the challenge is that we are electricity that they are competing with is much cheaper and a lower price than what they would be paying for development of

wind energy in other jurisdictions, but, yes, we have had discussions with the company and are working to see how we might move this project forward.

Mr. Graydon: One last question. Then are you prepared, as there were a number of short-listed companies for wind power and three of them, I believe, were short-listed. Are you prepared to give them all the same option that you're giving one company now?

Ms. Wowchuk: Each company came forward with a different proposal and a different price in it and all of those. The one that was agreed on was the one, the St. Joseph's wind project, and that's the one we're working with right now.

Mr. Cullen: I guess the question is, what's the next step here? I know there was a commitment for 300 megawatts of wind energy and we're at 138. What is the next step? Is there going to be a subsequent request for proposals or what's the next step in this process?

Ms. Wowchuk: Mr. Chairman, the company came, got a commitment that they could produce 300 megawatts, and they've now reduced the amount that they're prepared to produce. They've been in discussion with the municipalities where the wind farm will be located and there is—we have to deal with one at a time. There's one project that's in the mix right now. We have one successful project at St. Leon. Now they're looking at—this company has said they're interested in building in St. Joseph. They have come up with some challenges, as have many others that are looking at wind development. Since the—there's been this economic downturn; there hasn't been a wind farm developed in Canada. It's all—everything has slowed down. This project is no different.

Mr. Larry Maguire (Arthur-Virden): Just can't help raise this with the minister. She just indicated the economic downturn was the reason why there was no wind farms in Manitoba. Last summer, when I came home from the Midwest legislators forum in Kansas City, I drove up through the middle of North Dakota, and about 25 miles across the American border at Rugby, there's a 60-windmill project going up right now as we speak, and I believe they had at least as harsh an economic downturn as we did in Canada. Can she explain why that one's going ahead and we don't have anything here?

Yeah, while she's discussing it, there are—I don't know if I mentioned the number. I counted

specifically 60 towers of windmills that were up or being built at that particular time. It was around August the 17th last summer.

Mr. Schroeder: A couple of things: There are public utilities boards in states around there, including Minnesota, that mandate wind and simply pay for whatever the cost of it is, No. 1. No. 2, there's some pretty significant federal tax credits that were on and sometimes they come off in the United States, and so you have stop-and-start construction based on that. I think North Dakota electricity is almost as cheap as ours because they're running it off that coal and sending it to Minnesota.

Mr. Cullen: Yeah, last week I was at a presentation with the new Department of Innovation, Energy and Mines, and they were talking about wind energy, and they were talking about Manitoba Hydro being able to purchase wind energy at 6 to 7 cents per kilowatt. Do you have any comment on that?

* (21:50)

Mr. Brennan: Six cents is in the ball park. So if we—you got to look at wind power over the long term because if you looked at it this year, it wouldn't be good.

Mr. Cullen: The reason I bring this up, and go back to the Public Utilities Board report that indicated, you know, obviously the price we're paying for hydro-electricity now is quite reasonable because we have the old infrastructure in place. But now we're in a different world here where we're in the process of developing new facilities. Obviously, these new facilities are substantially more expensive than the existing infrastructure. So the PUB is saying that new hydro-electricity could be in the neighbourhood of 11 cents. So there's quite a difference there in terms of, you know, what we're paying for electricity now and what our future and new cost for hydro-electricity is going to be.

And my question is: We as a corporation, we as ratepayers, have to borrow the money to produce those—that new energy, whereas, wind energy, we're not borrowing the money, we're letting free enterprise develop that particular—we're just buying the commodity from them. And also there's economic spin-off from those wind farms, for instance, or any other form of energy.

Has Manitoba Hydro made the evaluation between the two systems? Like, is there somewhere we can go and say, okay, here's the breakeven point and were other forms of renewable energy as cost

effective? Have you done those kind of studies, those analyses, so that we know what the numbers are, the public knows what the numbers are and you know what the numbers are?

Mr. Brennan: You don't—it's not like selling a house where, you know, you put your price in the paper and say come and get it. Like, you know, Ontario's done that, by the way, but the price is so high, you know, it's just a high price.

First of all, we do make that comparison. You come along, you say okay, we can build 300 megawatts of wind at such and such a price. Here's what we think we can do it. Or you can do the other way. You know, they do it both ways. They come along and say, okay, what is the value of 300 megawatts of wind in the sequence, and then you come out with a value. But what you want to do is end up with a sequence that costs us the least money.

Wind power—we got a good wind resource in Manitoba. There's no doubt. Forty percent doesn't sound good, but, in actual fact, compared to other places, it is good. It's just a matter of when the time is best for it to be built, and if you built a plant like Conawapa, you know, nothing can compete with Conawapa. You know, Conawapa is a really cost-effective plant. Keeyask is not as good. But, you know, if you can get the right sequence, then you put in the wind and go for it.

Manitoba Hydro's been trying to make wind work and it just depends on the air. If you did it in the middle of a drought, it would be a good time. You know, like, you need the power then. But there's definitely sceptics to that, but we have been.

Mr. Cullen: Well, I guess that's where I'm heading in this thing and it's really a public policy decision that we shouldn't be having, and I don't think we've had that public-policy discussion. I think we've kind of—negotiations are going on in the backroom and I'm not sure who's making the decisions at the end of the day, whether it's Manitoba Hydro or if there is some government involvement here.

But I think, you know, we owe it to Manitobans to have an open dialogue in terms of public policy and where we're going to go because there is other economic spin-offs that can be a tremendous opportunity for rural Manitoba.

So I'm just hoping that the new minister responsible for Hydro will take that to heart and maybe have a discussion with her other colleague on the innovation side of things.

Just to make one further request, in terms of community wind energy development, there was talk about having a request for a proposal put out for smaller community-owned wind development projects. Is that still on the radar?

Mr. Brennan: We definitely put it on the back burner. We'll have to take a look at that, but certainly we've tried to design facilities to make it a good billing situation for individuals to do it, but we'll take another look at it, but it certainly was in our plans.

Mr. Borotsik: Mr. Chairman, to Mr. Schroeder. Let me understand, when the Hydro audit committee meets they have, as part of that meeting, a member of the independent office of the Auditor General in attendance. Can you tell me, Mr. Schroeder, when that practice started?

Mr. Schroeder: It started before my time.

Mr. Borotsik: Perhaps Mr. Brennan could then answer the question 'cause he's been there for 40 years. Can you tell me when that practice started?

Mr. Brennan: Even longer. I don't think it was too much before that, maybe five years, but, you know, we can find out when and give you the date.

Mr. Borotsik: A couple of other questions. We have a member of the independent office of the Auditor General at a committee meeting of the Manitoba Hydro audit committee. Can you tell me two things? Who over the last—oh let's say since 2004—has it been the same individual? Have there been different individuals? Have there been one or two individuals? Who have they been and can you answer, Mr. Brennan, as to why that practice started in the first place?

Mr. Brennan: It's my understanding the practice was to make sure that the provincial auditor office was aware of audit issues and financial issues occurring within our company, and it might have been more than five years now that I think about it, when you mentioned who's been coming, 'cause I think there's been about four or five people, and what they do is they take the individuals responsible for reviewing Manitoba Hydro and that individual comes.

Mr. Borotsik: Can you put a name to that individual since, oh let's say, 2005, four years ago, Mr. Brennan? Can you put a name to that individual?

Mr. Brennan: I don't think I can.

Mr. Schroeder: The current person is Mr. Storm.

Mr. Borotsik: How long has Mr. Storm been that particular employee of the Auditor General's office in attendance to the audit committee of Manitoba Hydro?

Mr. Schroeder: I don't recall.

Mr. Borotsik: Mr. Brennan, a number of times, and legitimately so, you've been the CEO of the operation for the last 40 years plus—

Floor Comment: No, no.

Mr. Borotsik: —the last—no, no, okay, sorry, an employee. I'm sorry, an employee of Manitoba Hydro for the last 40 years plus, definitely not the CEO. You've been an employee of Manitoba Hydro for 40 years and obviously it's in your blood, and over the last numbers of hours you've mentioned on a number of occasions how proud you are of the organization, and I don't dispute that, and you also have told us how you believe that it's the best financials that you can ever see in the organization, how it's well positioned and how proud you are of it.

Mr. Brennan, would you have any difficulty in having an independent audit outside of the Auditor General's department or an independent auditor perform that necessary audit with respect to the whistle-blower in your operation?

Mr. Brennan: I think KPMG are doing it. That's what they're doing for me. That's what's going to make me feel that I've handled the review. As a matter of fact, I'm looking more forward to that than the other audit, but it's only a personal one. You know, people are—we keep talking about the issues but I think there might be something good come out of all this. Who knows?

* (22:00)

Mr. Chairperson: The hour being 10 p.m., the committee agreed to review the sitting time. What's the will of the committee?

An Honourable Member: Pass the report.

Mr. Chairperson: The committee wish that—have a few more questions or do you wish to have the committee rise?

An Honourable Member: No, pass the reports.

Mr. Borotsik: Mr. Chairman, if we could, I'd ask for another five minutes, if the committee would agree with that.

Some Honourable Members: Agreed.

Mr. Chairperson: Is it the will of the committee to sit another five minutes to allow for the conclusion of questions? *[Agreed]*

It's—we'll proceed then with further questions for five minutes.

Mr. Borotsik: Just on that KPMG audit that's been contracted by Manitoba Hydro, do you have the terms of reference of that particular audit already identified with KPMG?

Mr. Brennan: I have. I got a—this is going to be a long answer.

An Honourable Member: I only have five minutes.

Mr. Brennan: Okay. I've worked out terms of reference with the—with the PUB. They have given their view on it. It's a little different than the one I originally presented to the audit committee of the Hydro board and, consequently, I have to take it back there to get it approved. But I think it's more comprehensive, so I don't see—well, I shouldn't talk for the audit committee. But, it'll go there tomorrow.

Mr. Borotsik: It's going—the terms of reference are going to the audit committee tomorrow to either be approved or disapproved and, once it's approved, can that term of reference with KPMG and its audit be made public?

Mr. Brennan: It's the audit committee's thing, so we'll talk about that tomorrow, but I have no trouble with it.

Mr. Borotsik: The reason I ask for the terms of reference, Mr. Brennan, is obviously to put some distance between conflict and the Auditor General's department, and if you're suggesting that KPMG is a more independent, at this point in time, and I take it that's what your comment is, then it would be very nice to know exactly what the terms of reference of the KPMG are, with respect to the whistle-blower and the allegations that have been put forward. So I would—I would ask that you put forward the request to the audit committee tomorrow that those terms of reference to KPMG be made public after that they've approved them.

Mr. Brennan: I don't think I said it was more independent. That—those weren't my words. I think in part of the terms of reference, I know what they are. I'm comfortable that they certainly meet management's needs. Hopefully, they'll meet the audit committee's needs and they seem to make the PUB's needs. So I think I've done my job.

Mr. Borotsik: Just be the last—the last comment that I did say about this one is I asked for an independent and we've asked at the public committee—at the Public Accounts Committee that the minister has mentioned a number of times, to look for an out-of-province, independent auditor or Auditor General and, again, I go back to your comments about how you certainly have nothing to hide with respect to the operations of Manitoba Hydro. Would you have any difficulty, as the CEO of the organization, having that out-of-province independent auditor or Auditor General do the audit of Manitoba Hydro?

Mr. Brennan: I'm open to any kind of audit of Manitoba Hydro.

Just out of a point of interest, the main players that are involved with KPMG appear to be from outside the province.

Mr. Borotsik: And I'm sure that that information will be brought forward, as well, once the audit committee has had the opportunity of reviewing it.

Last question, I promise: Manitoba Hydro, do they have any international operations or any involvement internationally at the present time with any of your own Hydro operations?

Mr. Brennan: Yes. We have an international operation that sells professional services primarily on a cost-recovery basis.

Mr. Chairperson: Mr. Borotsik, one very short question.

Mr. Borotsik: All right. It's not five minutes.

What kind of risks are there with respect to the international operations of Manitoba Hydro? You say it's simply selling technical services, but are there any risks attached to that, any liabilities?

Mr. Brennan: We're out—I guess the biggest risk is a billing cycle's bill. Like, you know, you bill at the end of a month, say, if you don't get paid, you can cut off the services. So the most we're out is the length of time we got people over there, wherever they are. It—so it's the cost of those people for that period of time, the cost of providing the service.

This operation, although it's not massive in size, for sure, and any profits we get are not going to save much in the way of rate increases, it's pretty good for the countries that we help out. And the second thing it does, it allows people to get some different experience and that sort of stuff, and allows people to replace them and get some experience while

they're away and that sort of thing. So it has worked out pretty good in that fashion, of course.

Mr. Chairperson: The hour being 10:06 p.m., the Chair has a few questions for committee members relating to the annual reports.

Shall the Annual Report of the Manitoba Hydro-Electric Board for the year ending March 31, 2007 pass?

Some Honourable Members: Pass.

Some Honourable Members: No.

Mr. Chairperson: The Chair hears a no. The report is not passed.

Shall the Annual Report of the Manitoba Hydro-Electric Board for the year ending March 31, 2008 pass?

Some Honourable Members: Pass

Some Honourable Members: No.

Mr. Chairperson: The Chair hears a no. The report is not passed.

Shall the Annual Report of the Manitoba Hydro-Electric Board for the year Ending March 31, 2009 pass?

Some Honourable Members: Pass.

Some Honourable Members: No.

Mr. Chairperson: The Chair hears a no. The report is not passed.

The hour being 10:07 p.m., what's the will of committee?

An Honourable Member: Committee rise.

Mr. Chairperson: Committee rise.

Thank you, members of the committee, and for our folks from Manitoba Hydro, and please leave your reports here, the annual reports for the next and subsequent committee meetings. Thank you.

Committee rise.

COMMITTEE ROSE AT: 10:07 p.m.

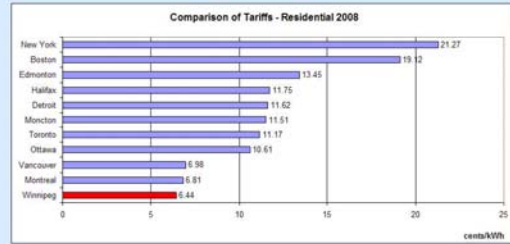
**UPDATE TO THE
PRESENTATION GIVEN TO
THE STANDING COMMITTEE
ON CROWN CORPORATIONS
ON JUNE 1, 2009**

Robert B. Brennan, FCA
President and Chief Executive Officer
Manitoba Hydro

November 17, 2009



**Comparison of Tariffs
Residential 2008**



Source: Hydro-Quebec

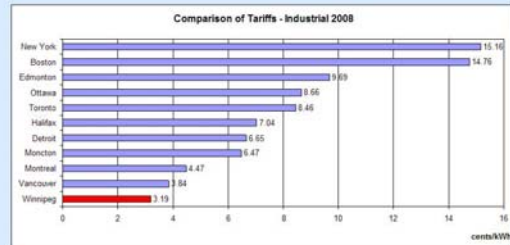


Outline of Presentation

- Industry Comparisons
- New Generation
- Wind
- Major Transmission
- New Generation
- New Downtown Office Project
- Details on Disgruntled Contractor's Allegations



**Comparison of Tariffs
Industrial 2008**



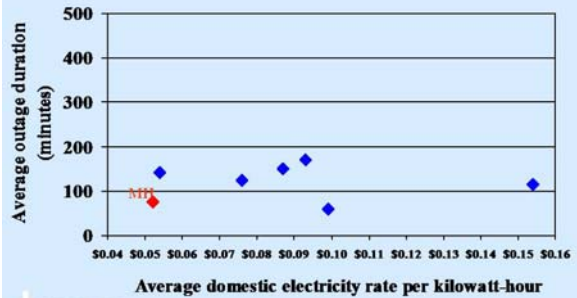
Source: Hydro-Quebec



Industry Comparisons

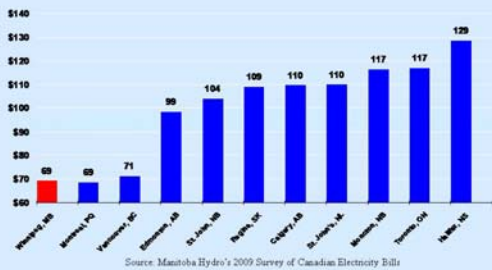


**2008 Average domestic electricity rate vs.
2008 Average customer outage duration in minutes**



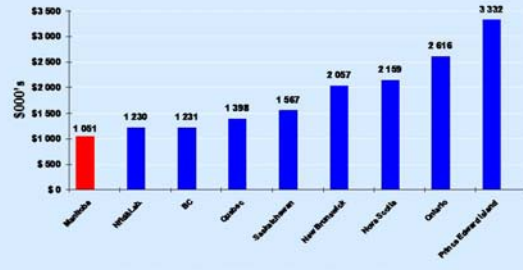
Residential Monthly Bill

1 000 kW.h



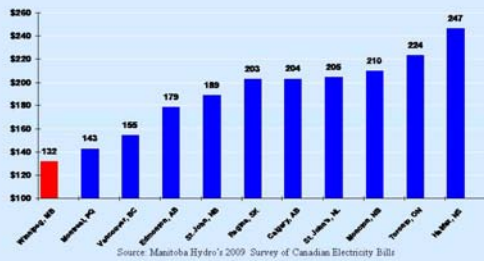
Industrial Monthly Bill

31 000 000 kW.h / 50 000 kW



Residential Monthly Bill

2 000 kW.h

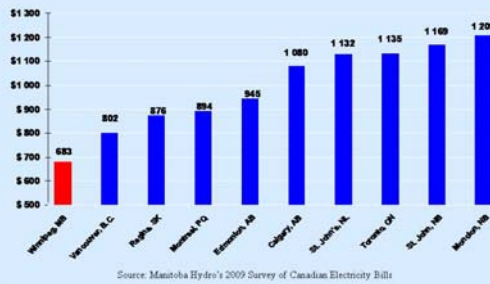


Residential Customer Satisfaction Index



Commercial Monthly Bill

10 000 kW.h



New Generation



Wuskwatim Generating Station

- Infrastructure contracts complete
- Excavation of the powerhouse and spillway areas complete
- First concrete poured May 17, 2009
- Workforce of 1,073 workers at site as of September 30, 2009
- Current first unit in-service date of late 2011



Wuskwatim's spillway will have three bays, each with a nine-metre by 16-metre vertical lift gate.



Wind



- The private 99MW wind farm in St Leon is in its fourth year of commercial operation.



Wuskwatim Employment Statistics

- Since project inception (August 2006), the total number of project hires is 3135, of which 1447 have been aboriginal (46%)



Wind – 300 MW RFP

- 84 offers, from 17 Proposers
- Brown and Babcock offered Manitoba Hydro the most appropriate proposal
- Brown and Babcock North American operations sold to Pattern Energy Group LP
- Power Purchase Agreement virtually complete
- Size of the project is 138 MW



Wind

Major Transmission



Major Transmission – Bipole III

- New HVdc line from the North
- Required for the reliability of the Manitoba Hydro Electrical system
- Three corridors being considered
- After the 3rd round of consultations Manitoba Hydro will propose a recommended corridor
- Issues with the proposed corridor will be reviewed in the 4th round of consultations



Downtown Office Project -Awards

- 2009 Canadian Urban Institute Brownie Award
- 2009 Council on Tall Buildings and Urban Habitat - Best Tall Building Award - Americas
- 2008 International Building Skin-tech Award, Highly Commended
- 2006 MIPIM (Marchè International des Professional d'Immobilier) Architectural Review Awards - Commended for Innovation
- 2006 Canadian Architect Award of Excellence

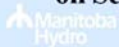


New Downtown Office Project



Downtown Office Project

- As of November 1, 2009, 1681 employees are working in the new downtown building
- One department and one division remain to move in
- The building Grand Opening was held on September 29, 2009



Details on Contractor's Allegations



Purpose of Consulting Contract

- **Post 2004 - new export market**
 - Greatly increased export opportunities
 - New and growing risks: price, credit, transmission
- **2005 – MH identified need for outside advice**
 - Assist in the understanding, measurement and reporting of overall export earnings at risk - i.e. beyond just drought which we fully understand
 - Examine feasibility of a single comprehensive measure
 - Assist in development of policy and procedures to manage



Comments

- Attempts to arrange a meeting with the contractor to review concerns were met with repeated demands for consulting fees.
- Contractor was paid to review Manitoba Hydro's analysis of the December 2006 report.
- Contractor was paid to prepare for January 2008 meeting with senior management.



Risk Contractor

- **Contract Awarded early April 2006**
- **By September 2006**
 - Limited progress
 - Reached impasse over proprietary information
 - Contractor refused to take direction
 - Advised Contractor the contract would not be extended
- **The December 4th, 2006 report**
 - Ignored original assignment
 - Dealt entirely with matters out of scope – did not deliver what was asked for
 - Provided no assumptions or details on method
 - Contractor recommended purchase of millions of dollars of software, and offered to satisfy this requirement with software in which the firm had a personal interest



Comments

- Full day meeting between the contractor and the President/senior management to hear the explanation of the allegations.
- Attempts by Manitoba Hydro to verify allegations.
 - Contractor invited to explain findings.
 - Did not provide assumptions or explain methodology.
- Review of conclusions by ICF Consulting . ICF findings diametrically opposed to contractor's allegations.



Comments

- Contractor claimed staff support for their opinions.
- Staff were invited to come forward if they agreed with contractor, without fear of retribution. None did so.
- Reviewed by Power Supply and also by Risk Management group, they found no basis for the findings.



Further Reviews

- Board and senior management of Manitoba Hydro want an definitive answer to the question, "Is there any merit to any of the allegations?"
 - At this point, MH has reliable, independent advice that the most significant allegations are not correct – ICF Report.
 - Manitoba Hydro has requested that KPMG conduct a detailed review. The Terms of Reference have been reviewed by the PUB and Crown Corporations Council.



Allegation of Blackouts

- No compromise on security of supply to Manitoba Hydro customers
- Only serious transmission problems could lead to blackouts – built-in redundancy
- Manitoba customers have priority over all exports
- Firm export contracts actually increase reliability
 - Enable new interconnections to an enormous pool of generators
 - Exports can be curtailed if necessary
- Import capability



- Hydro Management and Boards have always wanted to make changes to improve Manitoba Hydro



Allegations on 2003/04 Drought

- 3rd worst drought since 1912
- Hydraulic generation 40% below normal
- Net revenue down over \$600 million simply due to low water
 - \$436 million loss on the year
- External Reviews
 - 2004 PUB
 - "The Board is satisfied that MH took reasonable steps to mitigate its loss during the drought"
 - 2005 Independent Consultant Report (Risk Advisory)
 - "The Company did an outstanding job in managing the drought"



Questions and Discussion



Corporate Management Conclusion

- Lowest electricity rates in North America
- Highest customer satisfaction in Canada
- System reliability among highest on Continent
- Greatly improved safety record
- Strongest financial position ever
- Highest aboriginal representation in industry
- Best energy conservation program in Canada
- Environmental responsibility record is second to none



The Legislative Assembly of Manitoba Debates and Proceedings
are also available on the Internet at the following address:

<http://www.gov.mb.ca/legislature/hansard/index.html>