



Legislative Assembly of Manitoba

STANDING COMMITTEE

ON

PUBLIC UTILITIES AND NATURAL RESOURCES

Chairman

**Mr. Warren Steen
Constituency of Crescentwood**



Saturday, June 9, 1979 2:30 P.M.

**Hearing Of The Standing Committee
On
Public Utilities and Natural Resources
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Time: 2:30 p.m.

CHAIRMAN, Mr. Warren Steen.

MR. CHAIRMAN: Members of the committee, we have a quorum. Prior to the noon break, Mr. Cherniack had the floor. Does he wish to continue on?

MR. CHERNIACK: Yes, I would like permission to continue on, Mr. Chairman. I had indicated my desire to try to trace the impact on Hydro of the loan, the Swiss franc loan which falls due next June, which the government refinanced or financed afresh this June. I was asking whether Hydro had a study available to show the cost to Hydro, let us say for this year from June to next June, under the loan as it stood a few months ago. Then I would want to say, however, the government . . . No, I'm sorry, then I would say, well, now, suppose Hydro took advantage of the opportunity to borrow money at a much lower interest rate for one year in Swiss francs and thus roll over his loan and pay the ½ percent penalty, how much would that cost, and I'm sure it would be a saving from this June to next June? Then I want to know, what would happen with that loan under the government's proposed measure, and that is that the government will have taken over the loans of April 1, 1979, charging Hydro with the interest rate in Canadian funds and at the Canadian rate which would have been payable, in its estimation, as of the date the loan was taken out, which I think was 1975? And what will then be the cost to Hydro from June of this year to June of next year on the basis of paying Manitoba whatever that rate is, which I'm guessing would be 9 or 0 percent or maybe more, I'm not sure, but about 10 percent? What would that cost Hydro as compared with the fact that the government is borrowing that money at 3-¾ percent?

Now, it's clear in my mind what I want. I hope it's clear to Hydro officials so that they can in some way respond to my enquiry, which is not speculative. I think it's a practical approach.

MR. CHAIRMAN: Dr. Wedepohl.

DR. WEDEPOHL: Thank you, Mr. Chairman. I think, on a matter of principle before I ask for the specific detail from Mr. Fraser and Mr. McKean, this does raise a point. We are operating under this new rule which you know about, in which the government assumes the responsibility for our debt. Now, that was the rule effective at the time that the government did this for us. Now, there are some questions this morning and we discussed this and we have some specific information which may help you a bit, and that is that we do in fact pick up this interest. I think it was you Mr. Green asked me some questions about the interest charges. One has to make assumptions because we don't know what the interest rates are going to be, and so on, or what the exchange rates are going to be. But making some assumptions of relative constancy over the next period of five years, what this means is that we would have to repay debts in which the increased interest, the exchange rate fluctuations would be in the region of \$125 million. This has been assumed by the government of Manitoba. They will pay that money. It's hard cash that they will pay, which we otherwise would have to have paid.

To offset that however there will be something, and we have to speculate about the interest, but making a reasonable assessment it would probably be offset to the tune of about \$15 million, which we might otherwise have got on lower interest rates, so the net effect would be \$110 million advantageous to the corporation.

Now having said that, I think in answer to your specific question about the Swiss loan, we can't start of keep changing the rules to optimize our situation. We are working under the new arrangement whereby the government assumes the responsibility, so that while there might well be some difference, in reply to your question, if we'd done something else, I think that is really not — I may be wrong, but I don't think it's really relevant, because we are working under this new rule. It will cost us a little bit in increased charges, but at the same time the government is going to

assume the responsibility for the repayments when they become due.

MR. CHERNIACK: I appreciate Dr. Wedepohl's attempt to summarize, which I think is what he has done. But I must point out to him that in my opinion, the rule he speaks of, the new rule he speaks of is not a rule, it's a statement of intention. We have yet to debate the entire proposal in the Legislature, and the Doctor does not have the right to assume that the situation has been changed, but only the government which has majority control of Legislature intends so to do.

So what I'm asking is not speculating, and not guessing. The only unknown that I can foresee is what will be the change in rate as between the date when the government takes over the Swiss loan, and June 1, 1980, and therefore, the only intelligent way to approach it in my way of thinking is to assume no change in rate between June 1, 1979, and June 1, 1980. And on that basis, assuming no change in rate for that one year period, then we should be able to have a very realistic assessment of the different alternative costs, or benefits.

I'm zeroing in on that one because it's, I hope, the most understandable one for us to follow through so that we will understand the impact on Hydro of the overall.

MR. WEDEPOHL: I apologize, Mr. Cherniack, I did . . . Mr. Chairman, may I then confer with my colleagues.

MR. McKEAN: I'm not sure this answers your question exactly, but I think the best way I can do is describe what in my opinion would have happened if this had not taken place, and what would happen with the freeze. If the freeze had not taken place, as far as our records were concerned because of the call of this debt in June of 1979, we would absorb a realized loss of approximately \$27 million, I think, about that time. Again, I'm guessing at what the exchange rate was going to be, but that was the amount it would cost to pay back that original loan, as compared to what we realized when it was first borrowed in 1975.

Now, at the same time the new loan would be at the lower rate and so, from our interest cost point of view, we would have had the lower rate from June onward. I think I saw somewhere that somebody calculated that to be \$2 million less than the old loan, and I haven't checked the figure but we'll say for argument's sake it was a \$2 million saving. So that \$2 million, as far as the next fiscal year is concerned, would have partially offset this loss that we would have recorded in our records at that point.

Now, as far as the new position is concerned, that debt, or the interest cost to us starting the first of April, 1979, will be at the equivalent Canadian rate at the time the money was borrowed which I think you were right was in 1975. Now again, I haven't got that exact figure with me, but let's assume, I think the debt is about 8 percent, and let's say for argument's sake the equivalent Canadian rate at that time was 9 percent — and I'm just guessing quite bluntly — and under the new setup, if it's assigned to us at 9 percent, we will pay 9 percent interest starting the first of April, 1979 — and I might say that rate will continue until the date of the original maturity, which is June of 1981, at which time we will be reassigned in advance by the Minister of Finance, the Finance Department, at the then equivalent Canadian rates that are in force at that point. Now that's quickly how I attribute what is the difference in the two handlings, but I'm not sure if that answers your question, Mr. Cherniack.

MR. CHERNIACK: Well, Mr. Chairman, Mr. McKean assumes that Hydro will have had the benefit from 1975 until 1979 of paying a rate of interest less than it would have paid had the money been borrowed in Canada.

MR. McKEAN: We will have had that advantage.

MR. CHERNIACK: And that Hydro will now have the benefit of transferring its liability of \$67 million at a cost of \$40 million.

MR. McKEAN: We will take over a debt, or loan, based upon \$40 million at this point, based upon Canadian interest rates . . .

MR. CHERNIACK: So Hydro is now being told, instead of owing \$67 million, you will only owe \$40 million . . .

MR. McKEAN: That's right.

MR. CHERNIACK: . . . and the taxpayers of Manitoba will assume the liability of \$27 million

MR. McKEAN: Right.

MR. CHERNIACK: . . . and you will be charged a higher interest rate only from April 1st, 1979, until next year.

MR. McKEAN: Until the original maturity of the loan, which I think is June of 1980.

MR. CHERNIACK: That's right.

MR. McKEAN: And at which time any refinancing of that loan will be at the Canadian rate at that point.

MR. CHERNIACK: Which means that if the Manitoba taxpayer, through the Minister, is able to roll over that Swiss loan at — it was 3 3/8 I think, or something like that, again next year at \$67 million, assuming it has already payed off the \$27 million, then the differential between the 3 3/8 and the 9 or 10, or whatever they're charging to Hydro, will be of benefit, future benefit over the number of years that the new loan will take to the taxpayers.

MR. McKEAN: And will offset, you might say, the \$27 million that they've taken over in other words.

MR. CHERNIACK: It's bound to offset that unless the rate drops even further.

MR. McKEAN: Unless it goes the other way, yes.

MR. CHERNIACK: So that, when Dr. Wedepohl said that engineers don't like to speculate, he really meant, doesn't really like to speculate on the foreign market, but does speculate on flows of river, wind demands, and on oil pricing and all the other features that relate to cost and sale price. I think that's clear; I think it's self-apparent.

All this is in order to trade off, according to them, the potential rate increase of Hydro for a decrease for the next five years.

R. WEDEPOHL: I can't comment on what their . . .

R. CHERNIACK: What their intention is. You can only comment on its impact on Hydro. Dr. Wedepohl, you mention the figure of \$15 million juxtaposed against the figure of \$125 million. Is that a calculation that was made on the differential in rate in some average way between all the rates of these renewed types of interest rates for different loans, Canadian versus the foreign loans? Is that really a guesstimate or is it calculated in some way?

R. WEDEPOHL: No, it has to be an assumption, Mr. Cherniack, because you have to make some assumption; we can't know what the exchange rate is going to be for the next five years, we don't know that.

So the first assumption is we assumed, I think, effective around about April this year that that is the exchange rate and there wouldn't be any major fluctuations. And then an assumption was made about the Canadian interest rate, that it was going to increase by a certain amount, that's where the 15 million came from, so the 125 million is real money that is going to have to be back the next five years, and the 125 represents that loss due to exchange rate fluctuation; the 15 million represents an assumed increase in the rate of interest in Canada. If it's greater, it will be more than 15 million; if it's less, it will be less. Furthermore, the 125 won't be accurate, because the exchange rate won't be what it was on the 1st of April. So those were the two assumptions.

MR. CHERNIACK: Well, that's helpful. Thank you, Mr. Chairman. That's helpful. I understand the process that Mr. Wedepohl is describing. Let me try and describe it in my way, and that is that the government's announced intention is to freeze the rates for the next five years. I believe, and I believe that so far the figures I've presented and that we've discussed will support the speculation that a rate increase in the next five years would be most unlikely, and if at all would be very low rate increase, unless the dollar drops more drastically than now; and the trade-off for that is that the taxpayer of Manitoba is being asked to buy out the debt of the Hydro to the extent of, I said \$125 million, I think the Minister said \$150 million, something like that, buy off the debt,

give Hydro the benefit of the interest rate differential over the period of any existing loan that they've had up to April 1979, and burden the Manitoba taxpayer with that differential, all in order to achieve a rate freeze. Is that a correct description?

MR. WEDEPOHL: Mr. Chairman, I'm not sure that. . . I'm being asked to speculate on what the government's intentions are.

MR. CHERNIACK: No.

MR. WEDEPOHL: Were you asking me a question, or are you asking me to speculate on what the government's position is?

MR. CHERNIACK: No. I was saying, the government has announced that its intention is to freeze the rates.

MR. WEDEPOHL: Yes, that is so.

MR. CHERNIACK: And to do that, it has announced that it will take over the indebtedness Hydro, apparently reduced by some \$150 million. In other words, they will assume a liability of some \$150 million more than it lends to Hydro, and thus transfer — Mr. Chairman, Dr. Wedepohl appears to me to be not understanding what I am saying so . . .

MR. WEDEPOHL: I am a little bit confused, I must admit.

MR. CHERNIACK: Let me start again. And I don't have the figures. Mr. Chairman, I don't know the amount — I guess I should know it, it's here somewhere — what the total foreign currency debt is of Hydro. But whatever it is, . . .

MR. WEDEPOHL: It's about \$1.5 billion.

MR. CHERNIACK: \$1.5 billion, and I believe that the fluctuation exchange rate, as at the present time, or last April, would add how much to it?

MR. WEDEPOHL: 372 million.

MR. CHERNIACK: All right. So I am under the impression, and I don't have clarification but I would assume Hydro does, that the government will lend to Hydro that same. . . How much?

MR. WEDEPOHL: 372 million, or \$1.5 billion.

MR. CHERNIACK: \$1.5 billion.

MR. WEDEPOHL: \$1.5 billion.

MR. CHERNIACK: Lend them the same \$1.5 billion, and assume a liability of \$1.5 billion plus 300-some million. Am I not visualizing what the government has informed Hydro it intends to do?

MR. WEDEPOHL: Yes. They haven't assumed the \$1.5 billion, I don't think. That's on our books as Hydro. We assumed the loans as we negotiated them at the then exchange rate. The government will assume the responsibility for the 372 million.

MR. CHERNIACK: Well, in effect, it's converting the foreign loans owed by Hydro into Canadian dollars retroactively, and is assuming the liability of having to pay off at a higher exchange rate which means to me that the people of Manitoba are now being committed by the government to take a loss, a whopping loss of some \$300 million at the expense of the Manitoba taxpayer for the benefit of Hydro. As against that from April 1st on, the Manitoba government will be charging Hydro a greater interest rate than it will be paying, exclusive of the exchange rate.

MR. WEDEPOHL: That is my understanding, yes.

MR. CHERNIACK: Yes. And that means to me, that Hydro would be the beneficiary of the exchange

rates retroactively assumed by the Manitoba taxpayer, and will be liable on behalf of its ratepayers, who are the only ones who I believe pay Hydro's costs, for the increased interest rate. And there's that trade-off.

MR. WEDEPOHL: Yes.

MR. CHERNIACK: And the trade-off is all in the name of a freeze in rates, as far as Hydro knows.

MR. WEDEPOHL: Mr. Cherniack, I think I can't fully agree with you there because we are missing our revenue from export sales, and as I and I'll say again what I said this morning, the thing that as really pushed us, not pushed us, but encouraged us to go this way, is the fact that our export revenue so far exceeded our expectations, and I believe will continue to do so, because that is not frozen, and as the price of oil goes up, we may be, last February exporting \$9.3 million of electricity, with what is happening, we've now gone to nearly \$21 a barrel for oil. It might well be that that figure next year is going to be \$10 or \$11 million.

MR. CHERNIACK: Yes.

MR. WEDEPOHL: So I don't think one can forget the export situation because that was a crucial part of our discussions earlier in the year, when Mr. McKean and Mr. Fraser first all alerted me to this possibility. It was the very very buoyant export situation which is the thing that encouraged us to go to the Manitoba government and start the discussions.

MR. CHERNIACK: Mr. Chairman, I didn't know that the discussions were initiated by Hydro.

MR. WEDEPOHL: No, if I could then go back and tell you, as my understanding, exactly how this particular method came about; the first reference to it was in the Spivak Task Force Report on Economy and Efficiency. It was proposed at that point. This was discussed, I believe at Hydro, and I think Mr. McKean made some reference to it in his appearance before the Tritschler Commission, the formula, not the method. Subsequently, we at Hydro discussed this — I think it was in March of this year, Mr. McKean, Mr. Fraser and myself had a discussion about this — and I subsequently discussed the same thing with the Minister who was also interested, and I think it was at that stage that the Minister discussed the matter with Mr. Fraser and Mr. McKean.

MR. CHERNIACK: That then means that at the time the government made its decision it was fully aware of the increased revenue that one could expect from the export of Hydro power to United States.

MR. WEDEPOHL: Yes, that is correct.

MR. CHERNIACK: And that, therefore, means that the Minister and the government was fully aware of a tremendously improved position vis-a-vis potential rate increases, I say improved, over the presentation made by Hydro to the Utility Board a year ago. That's a fair statement, isn't it?

MR. WEDEPOHL: Yes.

MR. CHERNIACK: Mr. Chairman, I just want at this stage to ask if Hydro will be able now, or in the very near future, like in the next couple of days, let us know the various proposals or alternatives which Hydro presented to government on this entire question of rate freeze, because, Mr. Chairman, the Chairman of Hydro told us that there were various alternatives presented to government, government chose the one that has been announced. And I think it would be helpful for this committee and to the Legislature to know what the alternatives were.

MR. CHAIRMAN: Dr. Wedepohl.

MR. WEDEPOHL: Yes, Mr. Chairman, could I just confer with . . .

MR. CHAIRMAN: While Dr. Wedepohl is conferring with members of the Hydro staff, Mr. Domino told me that the Lion's Club are wanting to use the front steps for a ceremony and many of our members, have our cars parked nearby.

MR. CHERNIACK: Real administrative kerfuffle, isn't it?

MR. CHAIRMAN: Well, we won't have a quorum, so we'll take a five minute adjournment. Committee come to order again. We have our quorum again and we can proceed. Dr Wedepohl.

MR. WEDEPOHL: In response to Mr. Cherniack's question, I have to make a correction here. I had the situation reversed. The proposals were in fact from the government and Mr. Kean and Mr. Fraser were supplying information relative to those proposals, so we did not in fact make the proposals and I stand corrected. I apologize for that.

But one other point, Mr. Cherniack. I have a memo here which I would like to have read into the record, together with a page of figures which might provide you with some of the information relative to these alternatives. The memo is dated the 23rd of February of 1979, that's this year from Mr. Fraser to Mr. John Burns, and the associated table of figures is dated the day before the 22nd of February, 1979. This covers the period from 1979 to 1983 and gives a lot of the information that might help you to see how these projections were made. (See end of sitting file memo.)

MR. CHERNIACK: If you will permit an interruption, if that is complicated, I'm wondering if we could have a copy for the committee in sufficient time so that we could study it by Monday or Tuesday? Would that be possible?

MR. CHAIRMAN: I was just going to say to the members of the committee, perhaps there is photocopying equipment on Saturdays that is available to us in the building and perhaps the clerks can get them photocopied. But it's my understanding that the pages referred to by Dr. Wedepohl will be included in Hansard. Is that what you wish?

MR. WEDEPOHL: This is what I had asked, yes.

MR. CHERNIACK: That's fine, Mr. Chairman, I'm just thinking that we may be coming to Supplementary Supply before Hansard comes to us and I think it would be helpful to have that before that.

MR. WEDEPOHL: Mr. Cherniack, I'm not sure now where I have got to, I apologize. Have I finished answering your question or not?

MR. CHERNIACK: I would guess that with the information being supplied to us, that we may have the answer, depending on what is contained, but that was intended to be my last question for this series, Mr. Chairman. I want to thank Dr. Wedepohl and other members of Hydro for their quick response to my questions.

MR. CHAIRMAN: The next person on my list is Mr. Corrin.

MR. BRIAN CORRIN: Thank you. Mr. Chairman, I think that I am probably about to reduce the level of discussion. As a novice I would describe as being somewhat esoteric, and I might add that I have learned a great deal today in listening to the questions and responses made. But I am going to bring things down to perhaps a more practical level in that I want to ask some questions and stimulate some discussion relative to a situation which has come to light in the community of North Kildonan in the City of Winnipeg. I might add, Mr. Chairman, that it is quite possible that this situation exists in other communities throughout the province. It's just that, because of recent circumstances that this particular situation has been dramatized by a number of rather unfortunate events.

This involves, Mr. Chairman, the Manitoba Hydro arrangement to bring power to a central transformer in the subdivision located in the vicinity of Molson Road in North Kildonan. I'm advised from newspaper reports and some discussions with people who are investigating the situation, that an agreement was signed in September of 1975 between Manitoba Hydro and Engineered Homes, which company was the developer of this particular subdivision. I would like to add, Mr. Chairman, that this subdivision was built under the auspices of the Assisted Home Ownership Program and is populated by people who qualified for assistance thereunder. I only say that to indicate that the people are not of a privileged financial status and are therefore, as a result of the situation that has arisen, put in very difficult circumstances.

I am advised that the agreement I referred to, and one of the first things I would like to do

Mr. Chairman, although it is surrounded with other remarks, is that consideration be given to presenting a copy of this agreement so that it can be perused and studied. But I am advised that the terms of the agreement provided that Manitoba Hydro would simply bring power to a central transformer and that the developer, Engineered Homes, would thereafter be responsible for provision of transmission of that power from the central transformer to the households in question, right to the meter.

Apparently, because of a shift in the ground within the subdivision, a central underground cable ruptured or broke, causing some sort of shortage in the circuit, and apparently a complete power failure evolved from that particular situation. I'm told that resultant on that, because of the nature of the contractual arrangement between the developer of the subdivision, whom I'm advised now owns no property within the subdivision, and Manitoba Hydro, it was necessary that a private company install an above-ground cable in order to afford restoration of the service to the affected homes.

Now, I am further advised that the people in the subdivision have been told that Manitoba Hydro is not responsible, which well may be the case under the terms of this contract, are not responsible for the repair of the cable line and I would indicate that they have received an estimate indicating that the repair will be in the approximate amount of \$4,000.00. Now, Mr. Chairman, this may seem like a small amount, if we contemplate the size of the entire sub-division, but I'm told that currently only some six household units are actually affected by the cable's breakage. So we have a situation where six people really have an imminently vested interest are put in a situation where they are being asked to sustain the cost of repairs in the amount of \$4,000.00. As I indicated earlier, Mr. Chairman, these people are of limited financial means, and I am advised and informed that some of these people are simply not able to do that, they simply can't afford to put forward the capital that will put things back in normal working order.

Now, having said all that, Mr. Chairman, I have some very real concerns about this sort of arrangement, the contractual arrangement that has been negotiated between Hydro and this particular developer, and one of my concerns is very simply whether or not this arrangement is common, whether or not this arrangement has been induced in other communities and other situations. If that is the case, I must say I would be moved to suggest that Hydro consider the revision of its current policy in that regard. It seems to me, Mr. Chairman, from my reading of his situation, that these people were not informed, or so it seems they would maintain, they were not informed by the developer or by Hydro, that the transmission of electricity to their homes would be a personal responsibility. These people seem to be of the mind and impression that they were to be serviced in the normal fashion and in the usual course of affairs by Hydro.

Now, I'm further told that the developer has strenuously resisted any such interpretation and as indicated that no representations were fraudulently made to these people in that regard, that the developer at no time indicated that there would be hydro service direct to their homes beyond the transformer, the central transformer. But be that as it may, Mr. Chairman, it would appear that, while there was no actual fraudulent misrepresentation there was simply no representations made at all, so that the people, having failed to ask the fundamental question, got no response, and therefore worked on an assumption and a premise which proved to be fallacious.

So Mr. Chairman, I was going to ask, and I have asked, that the Chairman undertake to table a copy of the Hydro contract with the developer in order that we can see whether or not — well, first of all, we can see what terms and provisions were included therein — and whether or not the developer was under an onus to inform and notify the residents of the subdivision of this situation. I would hope, as a matter of public policy, Mr. Chairman, and I hope that the Chairman of the Hydro Board, Dr. Wedepohl, would agree, that it is important that the Utility, being a public utility, protect and safeguard the interests of the public in these sorts of situations. And it occurred to me that one of the ways that could be effected and most efficiently done would be to simply require, in the head contract between the Utility and the developer, that overt declarations must be made to all prospective homeowners, to all prospective purchasers. It seems to me that that would have afforded these people the opportunity to know the situation and therefore, they well might not have been induced to purchase these particular homes.

Mr. Chairman, I would also indicate that I am quite concerned about these sorts of arrangements being negotiated between Hydro and developers in any event, and perhaps it would be of interest, and it would certainly be of interest to me, Mr. Chairman, if some explanation could be given by Dr. Wedepohl, or any staff members present, as to why these sorts of contractual agreements are made with developers, and perhaps we could be advised in that regard as to the frequency of such arrangements in this regard as well.

It seems to me, Mr. Chairman, that sound public policy dictates that the Utility should bear responsibility for this sort of affair. They should be responsible for the maintenance of lines right to the householder's door in these sorts of situations, situations involving new building and

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within urban areas, and I don't understand why the Utility would neglect to maintain that sort of responsibility when dealing with developers involved in the construction of new subdivision areas.

Having said that, I don't know if Dr. Wedepohl was able to chronicle the questions that were interspersed with the observations, but if he were so able, Mr. Chairman, I would ask that he respond and try and give us some idea of what has been the case in the past and what policy direction and initiatives may be taken in the future to rectify this particular type of situation, prevent it from happening again?

MR. CHAIRMAN: Dr. Wedepohl.

MR. WEDEPOHL: Thank you, Mr. Chairman. I'd like to make a few comments, and then I'd like to ask our legal counsel, Mr. Funnell, to give you the technical situation as it is.

I am aware of the particular problem you mention here, and as I understand it, discussions are taking place between Engineered Homes, Manitoba Hydro, and the people who are living in the particular sub-division. But having said that, I would like to ask Mr. Funnell if he could respond to the contractual side of the thing.

MR. CHAIRMAN: Mr. Funnell.

MR. FUNNELL: Well, Mr. Chairman, first of all, the arrangement that Mr. Corrin refers to is not unusual, as a matter of fact, it's very common. With every one of its customers there is an agreement or understanding, as to the point at which the utility's responsibilities end and the customer's begin and these responsibilities may vary from situation to situation, but there's always an understanding as to where we finish and where somebody else begins.

In the particular instance, the contract that we had with the builder was quite clear, that the utility's responsibility ended at a particular spot — that is, the terminals of a transformer — and from that point onward the construction of the facilities themselves was undertaken, not by Hydro but by the builder, using their methods, and so on, so forth, through their own property in following the route and method that they wanted to. So it's in accordance with the normal routine that a plant placed on a customer's property normally belongs to the customer, and the customer looks after it.

MR. CORRIN: Mr. Chairman, through you to Mr. Funnell then, I would ask Mr. Funnell if he would agree with me that the customer that he refers to in this case was not, indeed, the ultimate customer being that it was the developer, the building contractor, Engineered Homes. And Hydro, of course, presumably would have been aware that this particular customer was shortly to be in the process of divesting title to all the parcels of land it owned within the subdivision to ultimate residential ultimate purchasers of the various plots.

On that basis, if Mr. Funnell would agree, Mr. Chairman, that that was the case, I would ask whether Mr. Funnell wouldn't agree with me that there shouldn't have been some provision, in the contract, whereby Engineered Homes, being the primary consumer, nothing more, had to describe and give detailed information relative to this situation to the ultimate consumers, the residents.

You see, Mr. Funnell, through you, Mr. Chairman, my concern is that these particular homeowners and I suppose many others in similar situations, are not aware when they purchase their property that they will have this responsibility. It's in a sense a hidden cost. And when there is an incident such as has taken place in the Molson Road Subdivision they're very hard pressed to make the necessary repairs very often by their financial situations, or could be very often hard pressed because of their financial situations to make the repairs.

Now, these people are very obviously in that position. As I indicated, this is an AHOP project all these people are to some extent subsidized with respect to their home ownership, and therefore of limited financial means. We also have a situation where, because the cable's breakage relates only to six properties, I'm told all the other residents in the area are saying, well, that's your problem, you six homeowners are going to have to look after that yourself. And as I see \$4,000 for people who are in this situation is a lot of money. And moreover, Mr. Chairman, I would indicate that there have been some expressions of concern by city officials, CMHC officials, as well as the residents, of course, as to the safety of the present temporary power situation. There apparently, as I indicated earlier, an above-ground cable that's been run to the houses, and that apparently is not consistent with national regulations, or for that matter, city regulations. I'm told it's inherently dangerous to have an above-ground cable servicing homes in these sorts of circumstances.

So on that basis, Mr. Chairman, I would ask why it wouldn't be possible, for instance, for Hydro

to go in and effect the necessary repairs, if for no other reason than to safeguard the well-being of the adults and children who live in the subdivision, and then perhaps we can sort out the legal problem later. Now, I know that as a lawyer I can say that that's not perhaps a solution within the confines of legal parameters, and perhaps, being a lawyer I could suggest it would set a bad precedent. But nevertheless, as a legislator and as a person whose responsibility is to protect people in jeopardy, I would suggest that it seems to be imminently suitable, as at least a short term solution to a precarious situation.

We can't have this go on much longer. It just seems preposterous that these people should be out in this position with all these people, CMHC, the Engineered Homes Development Company, Manitoba Hydro, the City of Winnipeg Inspection Department, all fighting and having meetings, while they're living in jeopardy.

As I said earlier, I think that Hydro should simply make it a matter of policy that any such arrangements as this that are undertaken with developers, building contractors, be subject to the condition that notice be passed on, directly passed on to all prospective consumers. These people are forcibly arguing that they did not know this to be the situation, and frankly, Mr. Chairman, would tend to believe them.

MR. CHAIRMAN: Could I interrupt you now and try and get an answer from the Hydro people and Dr. Wedepohl to a fairly lengthy question?

MR. CORRIN: Yes, I'm sorry, Mr. Chairman.

MR. WEDEPOHL: Mr. Chairman, while I have every sympathy with the points Mr. Corrin's making, he is a lawyer after all, and there are a considerable number of matters that he's ignoring when he says that we ought to be doing this. We are discussing with Engineered Homes this problem; we're concerned about it; it is a serious problem.

Firstly, there's a law of trespass. You can't just go along and do this. We've got to look into that. The second point is that the city of Winnipeg is responsible for inspections within the city of Winnipeg, not Manitoba Hydro, and so it seems to me that we have quite a complex situation here, which has to be solved in two parts. The one situation is to find out what has to be done about this particular problem, but I don't think it's particularly relevant that they are poor people. There is a proper process for doing things, and while I feel very sorry for them and I do think it's a sad situation that's happened here, it has to be properly looked at. We can't just go along and repair that cable without properly discussing this thing and finding out who is responsible for that.

The second part of it surely must be dealt with as a future matter; that in future householders must be informed what their responsibilities and obligations are, what the developer's is, and so on. But I think in this case, in effect, Mr. Corrin is asking Manitoba Hydro to repair something which at this moment in time, I don't think is Manitoba Hydro's problem. Now, that doesn't mean we're going to ignore the problem, we are discussing it with Engineered Homes, but I think that's as much as we need say at the moment.

MR. CORRIN: In that regard and in response to Dr. Wedepohl, I would indicate that insofar as the possibility of being charged, for instance, with trespass goes I can't imagine that Engineered Homes would be able to do that, simply because they, I am advised, have divested themselves of all interest in this subdivision; they have sold off all the parcels. The only other property owner of the city of Winnipeg who has imminent domain by way of public right-of-way and so on. I'm advised that the property owners would be delighted if Manitoba Hydro trespassed and came on their properties for the purpose of fixing the underground cable. So I don't think that's a real concern, Dr. Wedepohl, and I say that with respect. I do agree with you, for on the record, Mr. Chairman, I do agree with Dr. Wedepohl that the ultimate solution is one of policy and certainly the only reasonable policy is to make sure that through force of contractual law, that all such transactions in the future are made subject to information, through the developer to the prospective purchasers of the subdivision units.

I didn't hear, Mr. Chairman, whether Dr. Wedepohl or Hydro or the utility's legal counsel were going to table this particular contract, the contract between Engineered Homes and the utility made operative to Molson Road and that subdivision. I'm advised that that was signed in September of '75, Mr. Chairman.

MR. CHAIRMAN: Perhaps we could get an answer from Dr. Wedepohl on that question now as to whether they are in a position to table such a document. Dr. Wedepohl.

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MR. WEDEPOHL: Mr. Chairman, this is a private contract. I have to say I don't understand the protocol here today. Would you be requesting of us to table this contract, or what? I'm not quite sure what it is.

MR. CHAIRMAN: The minister, Mr. Craik, responsible for Hydro suggests that we refer to Mr. Funnell, legal counsel for Hydro, for an opinion. Mr. Funnell.

MR. FUNNELL: Well, Mr. Chairman, the contract is between Manitoba Hydro and another party, and normally we don't make private contracts public without the consent either of the other party, or an order of a court, or other proper party. Now, if we're ordered so to do, that's one thing; but to volunteer to make private contracts available is not proper. And, I think we would decline to do so unless the other party also approved of making this available.

MR. CORRIN: Mr. Chairman, I'm fully aware that the Member for Fort Rouge was unsuccessful in his efforts to bring to the Province of Manitoba, through its Legislature, freedom of information legislation, and this particular matter is apropos of his and other members concerns in the past few years, in that regard, Mr. Chairman, but I would indicate that it was my impression that Manitoba Hydro was a public utility, and in that impression I know that I am reinforced with some certainty by the knowledge that that is indeed its stature and status.

And, in that regard, Mr. Chairman, I would indicate that I thought that the processes of review as they are currently proceeding, were designed and constructed to effect the very purpose, the very purpose of freedom of information; and that they were designed to facilitate the expression of that concept.

And so, Mr. Chairman, when I, as a public representative, ask the Chairman of the Board of that public utility to disclose a contract which bears considerable relevance in that it involves the well-being of taxpayers of this province, citizens of this province, I would have thought that that particular document would have been disclosed, and that we would have been apprised of its contents. And in so doing we would be assisted in our efforts to secure the well-being of the people whom we represent.

MR. CHAIRMAN: May I interrupt, Mr. Corrin? Mr. Green, were you wanting to discuss this specific subject?

MR. GREEN: Yes.

MR. CHAIRMAN: Because I have two of your colleagues names ahead of you.

MR. GREEN: Just on this subject, Mr. Chairman, I just wondered whether there isn't a way in which the document could be given to the minister, and the minister present it to the member. This would have nothing to do with Mr. Funnell's then position vis-a-vis the document being let out by Hydro. It would be given to the responsible minister and the minister would be able to give it to the member, and I think he would give it to the member.

I gather that there is a contract where a supply of electricity with a private contractor, a developer who's now left the scene, which shows the terms upon which that Hydro and that developer developed this program electrically.

The citizens are in trouble, and they are trying to recover, I gather. I'm sure that if Hydro is responsible they won't want to avoid payment. I don't think that they are responsible from what Mr. Funnell said, but availability of the contract might help the citizens recover, and I would really urge that there doesn't appear to be any reason. If Hydro's responsible to those citizens then they should even be willing to say: "We are not responsible, but if you sue us here is the material." I would expect that Hydro would do that with citizens, but I would think that Mr. Funnell can make the contract available to the minister, and Mr. Chairman, I would hope that the minister would make it available to the member.

My whole position on freedom of information is based on the fact that he will do so; if he doesn't my friend Mr. Corrin is going to raise hell with me and I'm going to raise hell with the government. I really don't see why the government would want to keep from these citizens the terms and conditions upon which hydro was supplied to that developer. I can understand Hydro not wishing perhaps, to give it to the member on the spot, but the minister responsible can get it and I would urge him to get it and see whether he cannot give it to the member who wants it.

MR. WEDEPOHL: Mr. Chairman, for the record, I will ask Mr. Funnell to make this available to the minister on Monday, make the contract available to the minister.

MR. CRAIK: Mr. Chairman, there's only one reservation about it and it would be the same one I would have to honour that Mr. Funnell's concerned about. If it involves a second party, the time honoured procedure in government has always been to ask for the consent of the third party

MR. GREEN: No, sir, only when it's the government, Mr. Chairman, only when it's the government; the government will have the authority to make that document available, or not wait upon it, on its responsibility, and it will be able to look at that document and see whether it wants to make it available, and then we will argue about it.

But the rule requiring consent of the other party — I'm sure Jarmoc would not have given consent to the release of his document — relates to another government, relates to the Government of Canada or another government.

MR. CHAIRMAN: To Mr. Green and Mr. Corrin, Dr. Wedepohl has said, for the record, that Hydro will release the document to the Minister responsible for Hydro, and perhaps the two of you can take up issue with the minister at the next sitting of the Legislature.

Shall we move on from that topic? Mr. Corrin, do you have any further . . . ?

MR. CORRIN: No, Mr. Chairman. Thank you very much.

MR. CHAIRMAN: Mr. Walding.

MR. WALDING: Thank you, Mr. Chairman. I have one or two questions to ask. Firstly, I just wanted to get quite clear in my mind this matter of reserves that we were speaking of this morning.

The report showed, I believe, general reserves, I suppose these are rate stabilization reserves of some \$50 million which you said had been increased by another \$8 or \$10 million over the year. I'd like to ask in what form are those reserves? Is it simply cash in the bank in a particular account?

MR. McKEAN: In most cases, the reserves are invested in plant, in other words, what we realize in reserves we decrease our borrowings so, to all intents and purposes, we don't try and claim reserves. Now, I don't know whether that exactly answers your question or not.

MR. WALDING: I believe it does. And I'd like to know whether that is different from the reserve that you had set up for foreign debt amortization.

MR. McKEAN: Yes. First of all, to amortize the foreign debt what we intended to do, and we didn't do it because of what happened, would be to gradually increase our liability over the remaining term of the debt in order to get it up to the figure that's got to be paid off the debt. So to that point of view, really our liability for debt is stated at the amount we borrowed at the date we borrowed. The amount we've actually got to pay will depend upon the amount that's payable at maturity, depending on what the exchange rate is, and this question of amortizing this over the life was a proviso to try to gradually increase that liability. So I think I would call the amortization of debt is a recognition of an unstated liability and, as such, I couldn't call it reserve, a general reserve of the corporation. Now, I obviously haven't made myself completely clear, but . . .

MR. WALDING: No, there was an amount of \$100 million approximately given . . .

MR. McKEAN: Yes, the \$100 million that we were talking about is in the statement you have before you, at 31st March, 1978, you'll notice that our reserves amounted to \$50,350,000 at that point. We have estimated that our addition to reserves for the current fiscal year that just ended at 31st March, 1979 would be an additional \$45 million. So that 45 added to that 50 comes to just over 95 million, which is roughly the 100 million that is being talked about.

MR. WALDING: But I want to know where that \$45 million the form in which it was — is it simply an entry on your statement, is it cash in the bank, is it the same form of reserve as the other reserve that you mention?

MR. McKEAN: It's . . .

MR. CHAIRMAN: Perhaps for the betterment of all concerned, we could take a short recess unless Mr. Walding wants to compete with the band.

MR. WALDING: It's a conspiracy, Mr. Chairman.

MR. CHAIRMAN: . . . and hope that we don't have too many more band practices this afternoon at the back part of this building. Mr. Walding, you were in the midst of a question. Would you like to continue?

MR. WALDING: Mr. Chairman, I'll rephrase it and try again. The two reserves that you mentioned to us, Mr. McKean, one being a rate stabilization reserve and the other one a reserve required for foreign debt amortization. Are those funds in the same form?

MR. McKEAN: They're in the same form at that point. I think the difference is that the general reserves I'm talking about are the reserves that are available for the general well-being of Hydro. The amortization of foreign debt would have been the setting aside of funds for the future repayment of debt at maturity on the expectation that it would cost us more to pay back that debt at that point than the amount that was recorded in our . . .

MR. WALDING: I realize that you have them for different purposes, but they are presumably both an asset, and I wanted to know in what form was that asset? Is it simply cash sitting in the bank? You've told us that one is not.

MR. McKEAN: It would be to a large extent an excess of cash, which we don't leave in the bank ordinarily because of the fact that we are carrying on ongoing borrowings. Most of our reserves instead of putting in in the bank we decrease our borrowing, so in effect, it's invested in plant. In order to turn it into cash at a later date you've got to go out and borrow, but we do not fund our reserves as such, we decrease our borrowings.

MR. WALDING: That doesn't surprise me. MTS does the same thing, I understand. A slightly different topic.

It's been suggested that there is an excess capacity by Hydro, and that is one reason why the Limestone plant has been, not cancelled, but frozen if you like. Can you tell me if there is excess capacity, how is it measured and what is the amount?

MR. WEDEPOHL: Mr. Chairman, by excess capacity, are you talking about power or energy because there's a difference?

MR. WALDING: Perhaps you can explain the difference. I've only seen it listed as excess capacity for Manitoba, and I've seen figures like 20 and 25 per cent, but Ontario has 42 per cent.

MR. WEDEPOHL: Well, there's a difference. If you take a motor car, by way of analogy, a motor car might have an engine rated at 300 horsepower, and that is its power capacity; but the amount of energy you can get depends on how many times you fill the gas tank. In other words, if the gas tank is empty you can't get any energy out of it, but you've got a power capacity. And you can talk about surplus power capacity, or you can talk about surplus energy capacity, or deficit of both those quantities.

Now, I think the current situation is that we probably, in terms of capacity — let's talk about power capacity first of all — the reason that you need a certain capacity is that at peak time: wintertime usually for Manitoba, people want energy, but they all want it at the same time, so you have to have the power to provide that energy. This means in the summer time you might have a surplus power capacity. I'll ask Mr. Fraser in a moment to tell you what the current situation is there. The energy situation is very much more complex because you might well find that this year we have got a surplus energy capacity, but two years ago we were in deficit; we were actually running thermal power stations and importing nuclear electricity. So there we are, dependent on the vagaries of the weather. So it's very difficult to talk about an ongoing surplus energy capacity without coupling it with the prevailing water conditions at that particular time. But having said that I'll ask Mr. Fraser who will probably have some specific numbers to give you to explain just where we're at at the moment.

MR. FRASER: Yes, Mr. Chairman, I have just been handed the sheet that shows that as of the 31st of March, 1979, the total winter capacity in Manitoba was 3,657 megawatts, and the peak

demand last winter was 2,419. This refers in Dr. Wedepohl's analogy to the horsepower of the automobile.

MR. WEDEPOHL: Mr. Fraser, was that the Manitoba peaked amount? —(Interjection)— Yes, that figure of 2,400 refers to the Manitoba peak. On top of that, we would have had the export prevailing at that time to Ontario, Saskatchewan and the U.S.A.

MR. CHAIRMAN: Mr. Walding.

MR. WALDING: So would it then be true to say that there is an excess capacity in Hydro, but that they are able to sell most of that excess in export markets?

MR. WEDEPOHL: I think the answer to that is yes, in the main. I'm sorry, I stand corrected, the tie line is limited in capacity, it's 530 megawatts at the moment, but from next year onwards, that restrictions will be removed because we pick up another 1,000 megawatts of tie line capacity to Minneapolis.

MR. WALDING: Is the reason for the holding of the construction on the Limestone Dam tied in with this excess capacity?

MR. WEDEPOHL: Yes, the load forecast for a period of years was relatively stationary. It was growing very very slowly. Now, when you plan a power system, you work on a 10-year forecast, so if because of the length of time to plan and construct and get into operation in your plant, so, if during that period, once you have committed, you have ordered the plant and your load stops growing, which is what happened to us, you are then going to have a surplus capacity. This is exactly what happened to Manitoba Hydro. We experienced a number of years of very low load growth.

MR. WALDING: Could you put that excess capacity into percentage terms for me?

MR. WEDEPOHL: This would be the power capacity now?

MR. WALDING: Yes.

MR. WEDEPOHL: Our surplus is about 800 in a total of 3,600. —(Interjection)— Yes, our peak demand was 2,400, just over 2,400, and our capacity was 3,600. Now, of course, you would never want a situation where your peak demand was equal to your capacity, because you would then have no contingencies for outages, maintenance, various other unforeseen factors, and you do need some reserve capacity always. Every power system needs that and it depends on the utility; it can vary between 12 and 15 percent as a normal design target. We're somewhat beyond that.

MR. WALDING: Twelve to 15 percent is considered the sort of safety margin; would that be a reasonable term?

MR. WEDEPOHL: Well, it's one that you try to design to, but it's almost impossible to achieve, because either your load growth tends to be too high or too low. It's almost impossible to forecast precisely what your load is going to be at a particular time. But that would be a sort of initial design figure.

MR. WALDING: What figure would Hydro be sitting at above that? How much higher than the 12 to 15 percent?

MR. WEDEPOHL: Well, I haven't got it calculated, but it's about what? 25 percent —(Interjection)— Yes, it depends how you do the calculation. Percentages are funny things. It's a surplus of 1,200. If you take it of our peak demand, it's 50 percent, and if you take it of our total in-store capacity, it's 33 percent. In other words, you can either take 1,200 as a percentage of 3,600 or 3,400. If you're taking it as our peak demand this year, then it's 50 percent.

MR. WALDING: Are you familiar with the Ontario figure that I quoted to you of 42 percent?

MR. WEDEPOHL: I had heard it; I didn't know it as explicitly as that.

MR. WALDING: How would the Ontario figure compare with Manitoba's figures, on which basis of calculation?

MR. WEDEPOHL: I don't know how they did their calculation.

MR. WALDING: I assume that that excess capacity might be good as of this year, but as time goes on, that it would become a lesser figure until you have to build a new dam to . . .

MR. WEDEPOHL: Yes, indeed, our load is now definitely showing signs — our domestic load is showing signs of growing. I mentioned the figure of 9 percent. Now, we have to watch that because that's a figure for one month specifically and it might turn out to be an aberration, but if there is an upturn in the economy, the industrial sector, then our load will grow quickly.

MR. WALDING: You mentioned that Limestone's completion date had been put forward from — I've lost the note that I made — from 1981 to . . .

MR. WEDEPOHL: From '84 to '87.

MR. WALDING: The '84 completion date, was that before the project was frozen?

MR. WEDEPOHL: Yes, that's correct. The present forecast of '87 meant no further work for the time being.

MR. WALDING: It would indicate three years when there is no work done on the project.

MR. WEDEPOHL: Yes, that's right.

MR. WALDING: What was the total cost of Limestone on the '84 date of completion? Do you have a round figure?

MR. WEDEPOHL: Mr. Chairman, could I ask Mr. McKean or Mr. Arnason.

MR. CHAIRMAN: Mr. Arnason.

MR. ARNASON: Mr. Chairman, it would be \$1.2 billion, based on 1984-85 in-service date.

MR. WALDING: And do you have an estimate on the cost of the same project for the '87 completion date?

MR. ARNASON: \$1.5 billion.

MR. WALDING: Is that in constant dollars?

MR. ARNASON: That's in 1987 dollars, actual dollars.

MR. WALDING: So we are looking then at an additional cost of \$300 million for delaying the project by three years?

MR. ARNASON: Yes.

MR. WALDING: Perhaps I can ask your personal opinion, Dr. Wedepohl, after your remarks this morning about increasing the capacity and exporting all that we could, whether this is reasonable cost to assume or whether Hydro should be going ahead and saving the \$300 million and exporting the additional electricity as an earlier time?

MR. WEDEPOHL: I think you know what my sentiment is. I would be in favour of committing now because of my certainty of the political situation with regard to oil and nuclear. The fact, however, is that as Chairman of the Board of Manitoba, and the Board looking at the Act as it currently stands, we have no commitment to export power and we would be breaking the Act if we, as Board, were to commit this power station when we didn't need the power in Manitoba. So it would have to be a decision . . . If we're ahead of our load demand in Manitoba we were to commit Limestone Power Station, it would have to be on direction from the government because that power

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could only be used, at the moment, could only be exported to the U.S.A. or to other provinces and we are not covered in the Act by that.

MR. WALDING: Do you have requests from American power companies now to supply more power, if it were available?

MR. WEDEPOHL: I think the answer to that is probably yes. The current situation — but I don't know at what price because this is the \$50.00 question. I do know that on several occasions when I have been to the States they have been a serious deficit position. On the most recent visit I made to Minneapolis, Chicago was short, Minneapolis was short, and so was Nebraska. So I think that the politics is such, but this is something I can't determine. I'm expressing an opinion now as a person rather than expressing Board policy. I believe that the politics in the States will be such that from henceforth, if they can keep a barrel of oil in the ground, they will do it, and the action of us sending them electricity is keeping oil in the ground.

MR. WALDING: I follow the argument. I think it's a good one. I would like to ask also, still with Limestone, do you have an estimate of the cost of stopping the project there? Are there direct costs involved in mothballing the project, to use that expression?

MR. WEDEPOHL: I think there are direct costs, Mr. Chairman. May I again confer with my colleagues? I'm sorry, Mr. Chairman, we don't have figures on that. There is definitely a direct cost attributable to freezing the project because, as you may know, we did initially start some preparatory works in the form of the coffer dam, so there has to be a cost associated with the stoppage, but I'm not sure how much it would be.

MR. WALDING: The cofferdam is in place, is it?

MR. WEDEPOHL: Yes, it's not complete though. The first off cofferdam, I think, is more or less complete. Mr. Fraser has just alerted me that probably the most important direct cost would be his interest on the work that has already been committed, in other words, the money that's been spent.

MR. WALDING: Which amounts to how much?

MR. WEDEPOHL: I believe it is \$94 million. We'll check that but I believe it's somewhere in that

MR. WALDING: A further question along those same lines. You mentioned that the townsite associated with that project had been abandoned or . . . ?

MR. WEDEPOHL: No, it's being mothballed.

MR. WALDING: Mothballed. What would that consist of?

MR. WEDEPOHL: Again, I'll have to ask advice on that.

MR. WALDING: Are we speaking of permanent buildings or trailers?

MR. WEDEPOHL: Permanent. I think they have just been boarded up, just generally protected insofar as we can.

MR. WALDING: Is Hydro assuming the maintenance costs of the townsite, fire protection, vandalism and this sort of thing?

MR. WEDEPOHL: Yes, well, it's our property. I don't know in what respect; there's going to be minimal staffing there in any case.

MR. WALDING: What is the extent of fire protection on the townsite?

MR. WEDEPOHL: I'd have to take that . . . We are just going to check on that. Mr. Walding, the figure is \$96,416,000.00.

MR. WALDING: That's the cost of mothballing the project?

MR. WEDEPOHL: No, that's what has been paid out so far in the cofferdam downsite, and various other works that have to be put in place there.

MR. WALDING: And what are the annual costs associated with that freeze, other than interest?

MR. WEDEPOHL: May I just confer for a moment?

MR. WALDING: If you don't have it available . . .

MR. WEDEPOHL: I think I've got a reasonable figure here. The annual cost — this is apart from interest — is \$300,000 a year, in that order. There is a security force there; there is a fire hal and a fire engine, and the security people would man the fire engine if it was needed.

MR. WALDING: On a different topic, Dr. Wedepohl, I would like to ask you about the exports of power to the United States and ask whether the contracts or agreements with those power companies are in American dollars or in Canadian dollars?

MR. WEDEPOHL: They are in American dollars.

MR. WALDING: So you would expect to receive about 20 percent more than that in Canadian dollars?

MR. WEDEPOHL: Indeed, and that's what's happening.

MR. WALDING: So in that particular instance the exchange rate is working in your favour, as opposed to working against you as far as the bonds are concerned.

MR. WEDEPOHL: This is quite correct. Yes.

MR. WALDING: One of your colleagues said that he would like to have it both ways. I'd like to ask you whether the government is taking over the gain in that devaluation, in the same way that it's taking over the cost of the borrowing.

MR. WEDEPOHL: No, the money is coming back into operating . . .

MR. WALDING: So as far as that goes, you're getting the best of two worlds in that particular regard.

MR. WEDEPOHL: Indeed.

MR. WALDING: These sales to American power companies, are they for fixed lengths of time, or are they sold on a day-to-day or a week-to-week basis?

MR. WEDEPOHL: Most of the money we're making is on an interruptible basis. It's an ideal form of selling. In other words, it's negotiated by the hour; the sale price is negotiated early, and we can interrupt them without notice. Now I would ask, Mr. Chairman, if Mr. Fraser could add to that because they are the sorts of agreements and can relate to diversity, and so on.

MR. CHAIRMAN: Mr. Tishinski, do you wish to add some additional information.

MR. TISHINSKI: The way the system works on these extra-provincial sales is that a purchasing utility will make known to Manitoba Hydro approximately 24 hours in advance their needs for the following day, so that we may be in a position to schedule generation, or bring into line as required. Now, this is with the full understanding that the supply can be curtailed, and in cases of emergency, be at a shutdown in our system, or for reasons of that type.

Now, the prices can also vary on an hour-by-hour basis, but we have a good idea 24 hours in advance what the price will be, but this is what happens in practice. Twenty-four hours in advance we know what it is, but we could legitimately change the price even with an hour's notice, but usually this is not done on an hour's basis.

MR. WALDING: To refer back to all the comments that you made this morning, Dr. Wedepohl, about tying the cost of export power with some sort of escalated clause to the cost of oil, now how does that square with what I've just heard about a negotiation for power rates from day-to-day, or even from hour-to-hour?

MR. WEDEPOHL: We're talking about two different things here. What we're talking about here is, as I say, it's really in a way an ideal situation, but it's only ideal because we're in a seller's market. The U.S. badly want our electricity and we can supply it to them, and they'll take as much as we can get. Now, there the escalator's inbuilt because those prices are negotiated on the basis of the cost of them bringing a thermal power station onstream, rather than buying hydroelectricity from us, and we share the advantage on the difference between the two because once we've got our system in place, we don't pay for fuel. There's a small incremental cost in raising power, say, at Kettle Rapids or Long Spruce. They, on the other hand, may have to bring in an old, or rather inefficient thermal station and they've got to pay for the fuel, which is escalating, and the price that is agreed is based on the average between our cost of generation and theirs. We take the mean figure. And so, if the price of oil has gone up, then the cost of bringing that power station up is going to go up, and automatically the price goes up.

What I was talking about this morning was a fixed price contract. I think, with hindsight, it was very unwise of B.C. Hydro, I think, to negotiate a 75 year contract to sell electricity to Portland Bonneville Power Administration for two mills for 75 years, and that contract's got probably more than 60 years to run. Now that was the kind of contract where I felt that it would be essential, if you were going to go into a firm contract for a given sale of power, that there had to be an escalated clause on the cost of electricity. Otherwise, as inflation comes along you'd be really in a very poor situation.

MR. WALDING: But you're not talking about fixed cost contracts.

MR. WEDEPOHL: The kind we're talking about here is the kind where automatically the price is going to fluctuate with the price of fuel. We do have fixed price contracts with Ontario. I think this is for a period of — how long, Mr. Fraser?

MR. FRASER: 1982.

MR. WEDEPOHL: 1982. It's a five year contract, a five year contract. So there we negotiated a fixed price but for a comparatively short period of time.

MR. WALDING: Okay. I'd like to ask you about a slightly different topic now, also having to do with rates. There was reference in the Budget Speech this year that one of the effects of the Hydro freeze would be that Manitoba's rates would be back around the lowest in the country. I believe that was the phraseology, without anything definite. The last figures that I heard, I think came from Hydro at a recent meeting of this Committee, which indicated to my memory that in 1965 Manitoba's rates were the third lowest in the country, and as of 1975 they were the second lowest in the country. Now, do you have figures for more recent years than that, and can you give me an idea of just how Manitoba stands in relation to other provinces?

MR. WEDEPOHL: If Mr. Fraser could . . .

MR. CHAIRMAN: Mr. Fraser, please.

MR. FRASER: Yes. Every Utility has a different schedule of rates, and if you compare industrial rates from one province to another, and different size of customer, and different characteristics of load, you're going to get a different answer. We feel that basically we're still about the second lowest price, taking everything into account. Now, you can find, if you make a comparison on residential you'll get one comparison; if you make it on commercial sales, you'll find another one; if you make it on large power, you'll find another, but if you average them all over, we think that we're still second place.

MR. WALDING: Is that as of this year, or '78? Which year are you referring to?

MR. FRASER: As of today. And that's another thing. It's a good point that you raise, that everybody changes rates on a different part of the year, and if you compare as of one month, it may change;

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say, April might be different from August, and so on, because everybody will change and they've all been going up and one will leapfrog over the other, and so on.

MR. WALDING: You're telling me then that as of June of '79 that Manitoba has the second lowest rates in the country?

MR. FRASER: Without being specific, and I'm saying overall average, that's our feeling, yes,

MR. WALDING: Would Quebec Hydro be the lowest?

MR. FRASER: Yes.

MR. WALDING: It was indicated to us when those figures were given before, that that was expected to change when Quebec Hydro started paying the costs of its \$3, \$6, \$7 billion of debt required to finance the James Bay project. Does Hydro still feel the same way?

MR. FRASER: Yes. Quebec has announced a series of rate increases for the next three years I just can't bring them to memory, but they're like 13 percent and 10 percent, numbers like that and they have announced that there will be these increases for the next three years.

MR. WALDING: Would you expect after that three years then, that their rates would be higher than Manitoba's rates?

MR. FRASER: Again, I think we'll have to wait and see how they're applied, and how this overall average comes out. I really can't give you a comparison. Their structure is really quite different from ours. They have a flat province-wide rate. It doesn't have any geographic changes the way ours does, and the structure of their industrial rate is somewhat different, so I really can't answer that. I'll have to see how they apply the numbers.

MR. WALDING: Is their average rate then that much lower than Manitoba's that it would need to come up, you know, by quite a large percentage before it comes close to us, or is there not very much difference at the moment?

MR. FRASER: We're going to have to guess here, but we're guessing that they're some 15 to 20 percent lower at the moment. Now, if that holds, with the announcements they've made, that should support the statements that you've heard earlier, that at the end of five years it would not be unreasonable to expect that perhaps ours would be lower than theirs, but you have to realize that there's a lot of speculation in that between now and then.

MR. WALDING: What you're telling me then is, if Manitoba is still the second lowest, as it was in 1975, that all the other provinces must have been raising their rates at least the same amount as Manitoba is, if we were to retain that position, whether or not they have a Conservative, or Liberal, or an NDP Government, whether they produce electricity by coal, oil, or Hydro rates.

MR. FRASER: They've definitely all gone up. Now, perhaps they've closed the gap against us, in the kind of thing that I just can't tell you offhand, but definitely they have all been experiencing a series of increases, and of course the unfortunate areas of the Maritimes, where they're dependent on offshore supplies of fossil fuel, theirs have gone up much more rapidly, and there has been some dislocation, if you like, in the hierarchy or the sequence of rates across the country, but they have definitely all been going up, with the exception of Quebec, have gone up a very modest amount but then their big increase is yet to come.

MR. WALDING: M'hmm. I have two more fairly short questions, Mr. Chairman. I'd like to ask about the migration of Hydro's computer work to Manitoba Data Services. We were told by the Telephone System that this migration should be completed by autumn of this year anyway. I would like to ask Dean Wedepohl if he can tell me whether it's all of Hydro's computer capacity, or is Hydro retaining some computer capacity to handle its monitoring of its production capacity?

MR. FRASER: Yes, Mr. Chairman. The workload that will be migrated to the Manitoba Data Service is primarily what we have referred to as data processing. It does not involve what we would classify as process computing work, that is, having to do with our system operation, or the actual operation of individual generating plants. That will be retained in-house.

MR. WALDING: I have heard that Hydro did a study on its computer capacity and its computer rates and costs recently, and the information was sent to Hydro's Board that there would be a cost involved in this migration of several million dollars. Can you enlarge upon this, and tell us whether that was an accurate figure and whether it was accepted anyway?

MR. WEDEPOHL: Mr. Fraser, if you could take that one, please?

MR. FRASER: Yes, Mr. Chairman, Hydro did commission a study. It was actually done by a consultant with a good deal of input from our people, and to a large extent this was based on projections as to what might happen, what costs we might entail, and so on, and it did show that from Hydro's individual point of view, it looked like it would be less costly to make separate arrangements and to go with Manitoba Data Services. This was reported to the government, who have responsibility for Manitoba Data Services and all the others, and it was further studied, in conjunction with the requirements of the other departments, and the decision then was that the migration would proceed, and that's what is happening.

MR. WALDING: So the decision to proceed with that migration was not a Hydro decision, it was a government decision. Would that be correct?

MR. FRASER: That's correct.

MR. WALDING: I see. Thank you. I want to ask now about the work that Hydro was involved in as far as the Tritschler Commission Report was concerned. I understand that Hydro produced a good deal of paper work, copies of reports, etc., for that Commission. I would like to know if Hydro has any estimate of the cost involved in paper work, in time, and various other requirements required by that Commission?

MR. CHAIRMAN: Can we just take a moment and let the Hydro people confer? Mr. Walding, it must be your British background that brings these bands out when you're asking questions, is it?

MR. WEDEPOHL: The estimate today is about \$600,000.00.

MR. WALDING: \$600,000.00. Do you have a breakdown of that \$600,000 as to how much was in time and how much was in other materials, and can you give us an idea of what the load of paperwork was that the Commission required of Hydro.

MR. CHAIRMAN: I think it would be wise if we took another, hopefully, short break.

Could we reconvene. Mr. Walding, I think Dr. Wedepohl and his staff people got most of your question over the noise, so maybe he can answer it now.

MR. WEDEPOHL: Mr. Chairman, we don't have the figures with us here. The cost of paper would be relatively insignificant. Most of that cost will be labour and legal fees, in other words, corporation staff time and legal fees.

MR. WALDING: I'm told that there was a lot of duplicating work done for the Commission.

MR. WEDEPOHL: I did ask that question of one of my colleagues, and they said that in fact it won't be a significant cost.

MR. WALDING: I'd like to ask you now whether Hydro is assuming that \$600,000 in cost or whether that is to be charged to the Commission.

MR. WEDEPOHL: Mr. Chairman, I don't know the answer to that question. I think we would probably assume that.

MR. WALDING: No further questions at the moment.

MR. CHAIRMAN: Mr. Doern.

MR. RUSSELL DOERN: Mr. Chairman, I just had a few questions. One is on the proposed Canadian

power grid, I just wondered if the Chairman had any comment as to the reality of that prospect. I assume it's been talked about for at least 20 or 30 years. Given what I understand are Ontario power surpluses, etc., etc., does it seem that that is something we can expect in the near future, or is that a long term possibility?

MR. WEDEPOHL: Mr. Chairman, I'd have to speculate on this, I just don't know. I've not been party to any of the detailed discussions. I do know that there's been a commission studying this, and this has been reported by the Minister. I think there will be an east-west power grid eventually, but one has to be so speculative about this because it depends on many factors. For example, it could depend on the Alberta government as to how they view their oil. Are they going to charge it at today's prices, or are they going to assign a much higher cost to keeping their oil in the ground. So I just don't know, it could happen quickly or it could take a long time, and I think it's a matter of speculation as to when.

MR. DOERN: So when you, yourself, view the potential market in the United States, then I assume that that is a real thing with great prospects, whereas the Canadian power grid is either not feasible at this time or might be longer term.

MR. WEDEPOHL: That's not so. Again, you're asking me to speculate. It depends, I think, very critically on the viewpoint of various provincial governments, and how they're going to view their fossil reserves. So I think it is feasible, but when it will take place I don't know.

MR. DOERN: Is it true that Hydro in Ontario does have considerable overcapacity?

MR. WEDEPOHL: Ontario Hydro?

MR. DOERN: Yes.

MR. WEDEPOHL: I can't answer that. Yes, apparently so.

MR. DOERN: I'm looking at an article in Maclean's, January 29th, and they indicate that they have an excess that's bound to continue for a decade. Does Manitoba Hydro have any plans for nuclear plants? Or did you have any?

MR. WEDEPOHL: We did have plans, but that was based on the forecast which started to turr down in 1964, so that the nuclear division was disbanded for the indefinite future, now there are no plans. If there was a sudden upswing in load, it would have to be a fairly big one, then that might be reactivated.

MR. DOERN: Would you say that the experience in the United States has even made that more remote, the Three Island, or whatever it was called, experience or anything?

MR. WEDEPOHL: Well, you're asking me to speculate again, Mr. Doern, but what I would say is this, that there might come a time when you'd have to choose whether you're going to freeze to death or have a nuclear power station.

MR. DOERN: Freeze to death or fry to death.

MR. WEDEPOHL: Well . . .

MR. DOERN: The other question I wanted to ask you was, over the years there have been various policies in place about advertising and promoting the use of electric power in the province. At one time it was, I suppose, promoted or highly promoted, then I believe there was a directive issued to cease and desist. What is the present policy of Hydro in that regard? Is there an attempt being made to promote the greater use of electric power by consumers?

MR. WEDEPOHL: Mr. Chairman, could I ask Mr. Fraser what the current status is?

MR. FRASER: The present policy is as neutral as we can possibly make it. We have been advertising at country fairs and various other places about the benefits of adding insulation and the benefit of utilizing all forms of energy, including electricity, as efficiently as possible. You asked specifically whether there was any attempt to influence the increased use, and it isn't intended for that purpose

it is really, as I say, it's as neutral as we can make it, trying to stress the benefits of using energy as wisely as possible.

MR. DOERN: Does Hydro, for example, I guess at one time, as I understood it, Hydro was encouraging people to substitute electric heat for gas and oil. I believe that was a policy, or if not it was an impression, and I'm just wondering, in view of the oil crisis and some of Dean Wedepohl's comments this morning, etc., whether that policy might be revived, or is it just not economic, even at this point?

MR. FRASER: There's a fair amount of activity around the country towards reviving it as you suggest, I think New Brunswick is probably the most active location for this, but there has been no change in Manitoba Hydro's position yet. We're sort of waiting to see what others do. At the moment we are still maintaining a neutral position.

MR. DOERN: I wanted to ask Mr. Wedepohl again, given his statement this morning where he seemed to indicate that in the last few months or six months there's been a dramatic situation in terms of oil supplies and oil shortages, whether you would favour a strong policy of substituting electric power for gas and oil wherever possible.

MR. WEDEPOHL: I don't think so. Not at this time. It's going to come, by the way, there's no question about it, it's a matter of when. The situation I was talking to really related to the beleaguered situation in the United States. The current situation in Canada is that it appears as if our gas reserves are going to last a fairly long time, and the price of gas is going up but not by leaps and bounds the way oil is doing. So that in the Manitoba context, if we were to start promoting electric heat I think we might cause a certain amount of irritation at the moment, because I think if you compare like with like, a house that is insulated to the same standard, same lifestyle of two families, I think it's considerably cheaper at the moment to heat by gas. Over a period of five years, of course, gas is going to rise in price and electricity is going to be frozen, so that the differential would close.

But I think it's a matter, as Mr. Fraser said, of urging people to use energy wisely. I wouldn't be in favour of urging people to use electricity in an area where they could heat their houses more inexpensively with gas. I think in parts of the province, the more northerly parts, where oil transport becomes increasingly expensive and there is no natural gas and propane is very expensive, people will heat with electricity right now, and it'll turn out to be probably the most economical method of heating. But it certainly wouldn't be so with people who have access to the gas pipeline.

MR. DOERN: Our administration tried an experiment with electric vehicles, and I believe that over a period of time that experiment will be justified. I was just wondering whether you, personally, saw any future in electric cars, or is that some distance down the road as you visualize it?

MR. WEDEPOHL: This is a complicated one. Of course, an electric car is not the answer, it's not a universal panacea because you've got to put energy into the battery and you're up against the conversion efficiency to do this. I believe that where there are abundant supplies of electrical energy and renewable resources such as we have here with Hydro, it is a way to go. It's a possibility, but it is quite an expensive possibility when you take the losses, the conversion efficiency of charging the batteries and so on. It's not the cheapest possible thing to do.

And there are still problems relating to the storage density. Batteries are not very energy dense so that either you need a rather small horsepower motor or you need a very big battery, either of which is a drawback.

MR. DOERN: I have an ad before me which is about Fisher Stoves. These are wood-burning stoves, this is from one of the weekend daily paper inserts and I find this really astonishing. I was just wondering whether you would care to express an opinion on it. They give as an example, Hydro bills from November 26, 1978, to January 26, 1979, they say these Hydro bills were received by a householder of a 3,200 square foot house using an electric furnace for heat in the two-month period, and they show, for instance, in December a bill of \$322.00 and in January a bill of \$260.00 per month. Then they show another household where the bill was \$8.50, presumably demonstrating or all time, not for all time but at this point in time, that you can heat your house for \$8.50 if you're using a wood stove, almost for nothing; that you have great advantages in the use of wood. Do you believe ads like that, that it can be done so cheaply?

MR. WEDEPOHL: I must say I find that quite surprising. It is also a fact, I think that there's not

enough wood for a quarter of a million householders in Manitoba to burn wood. I think the quantity of wood required to do this, to heat our houses, as an alternative to any other form of energy I think just isn't possible with our own resources, but I don't know, I'm not an expert. That does sound a rather surprising thing, and I would have thought people would be scrambling madly to get Fisher Stoves if they could heat their houses for \$8.00 a month in January or February.

MR. DOERN: Do you have one in your home?

MR. WEDEPOHL: No. I will refuse to unblock my chimney, Mr. Doern. I know people who have put fireplaces in where their energy bills increase because the sucking of fireplaces can be quite inefficient; where they actually increase their bills by having a wood fire. But I'm now not talking about a Fisher Stove, I'm talking about a normal open fireplace.

MR. DOERN: Because of the chimneys, or the drafts?

MR. WEDEPOHL: Yes. You're sucking huge quantities of hot air up and you're sucking in cold air, and you've got to reheat it with your system, so you can actually incur a penalty. But I'm not talking about a Fisher Stove because I don't know how it works.

MR. DOERN: So you don't see this switch to wood as being a real prospect.

MR. WEDEPOHL: I think it ought to be considered. I think every possibility should be explored very carefully, but I think it would be probably a top-up form of heating, because I just don't think there is enough wood in the province for this to be a serious alternative for a million people.

MR. DOERN: You see it as a supplementary source of heating?

MR. WEDEPOHL: Yes.

MR. DOERN: Do you see solar in the same way?

MR. WEDEPOHL: Yes. And again, with solar, one has to be careful. There have been experiments done, but we live in a very cold climate region, and so solar presents problems because the sky is very cold in wintertime and you can get back radiation, so that the efficiency of conversion of solar is a matter of concern.

MR. DOERN: My final question, Mr. Chairman, is with the Russian generators that were used by Hydro. My impression is that this was a good deal for Hydro in that first of all there was a cost saving in purchasing them, and secondly that the Russians took a beating on that deal in that cost them a fortune to install those generators. I was just wondering what observations you have in terms of the economics of that purchase, and whether they have been performing satisfactorily?

MR. WEDEPOHL: I think, Mr. Chairman, on the simple matter of the purchase of the turbines what Mr. Doern says is correct. I don't think the Russians are going to make any money out of this because they have to pay their subcontractors some quite high costs and so on. But at the same time, it's not simply a matter of the purchase cost of the generators. I would simply say that there was a very long delay in getting the station complete, which did impose a cost on Hydro and one would have to look at all these parameters very carefully. I really don't know whether the station has yet been completed as to what this is. I don't think Hydro has this, have they?

MR. DOERN: What were the original figures? What were the generators purchased for, versus — was it General Electric? — or whoever it was that had the comparable . . . ?

MR. WEDEPOHL: Mr. Chairman, I'll have to ask one of my colleagues. Yes, Mr. Chairman, the two costs are 16 million initially for the USSR generators and I think 27 for the next low bidder which I believe was either General Electric or Westinghouse. Both of those were subject to escalation and there was a cost overrun, I believe, which was awarded as well. I'm sorry, Ellis-Chalmers was the number two bid.

MR. DOERN: So there was a saving of \$11 million?

MR. WEDEPOHL: Yes, but there was a cost overrun on Jenpeg; I forget how much it was, I believe the figure of 4 million-plus sticks in my mind.

MR. DOERN: The other thing, Mr. Chairman, on that financial projection memo, there are a couple of lines in there which maybe could be clarified and I think my colleagues want to follow up on this. "Extra Provincial Revenue projections from 1979 to '83 went from 78 million, then down to 72, 110, 107, 102 million. You mentioned this morning, I think, that given the crunch in the United States right now, the gas shortages and oil shortages and so on, would these figures now be different? These projections, would they now be revised? You seem to give us a gloomier American picture and a brighter Manitoba picture. Would these estimates possibly be now revised upwards, even in the last few months?"

MR. WEDEPOHL: There would probably be an upward revision, I believe, and certainly already the very first figure is subject to revision right now because that figure was \$83 million or thereabouts.

MR. DOERN: Which is that for, the '79 or '80 figure? —(Interjection)— 83 million. I'm saying, do you see the other figures being revised upwardly?

MR. WEDEPOHL: Well, for the coming year it will probably go up somewhat, although we were exporting at a fairly productive rate, so we had our tie lines fairly full. We will probably sell a bit more energy and probably the price could go as high as 100 million, or perhaps a little bit more than that, but in May of '80, the Minneapolis tie comes in and at that stage — and this is my own personal opinion, that there would be another fairly substantial increase then.

MR. DOERN: And then why do these figures go up to 110 and 81, and then start declining again? Why don't they continue to rise?

MR. WEDEPOHL: If I could ask Mr. McKean to give you that answer.

MR. CHAIRMAN: Mr. McKean.

MR. McKEAN: Generally, we estimate it will go down as the Manitoba load increases. In other words, as the Manitoba load increases, we will have less to sell. That increase to 110 was assuming the line to Minneapolis was in and that accounts for a large increase from the 72. The 72 was prepared before we knew what happened the last year. The 72 was the estimate when we were estimating Manitoba to be this year 66. You notice it's 78 here on the 22nd of February, and by the 31st of March, it ended up better than 82. So I join in saying that 72, I hope, is low.

MR. DOERN: So the underlying basis is you would fix the number of plants we have now. This assumes that the Manitoba share will increase and therefore relatively the American will decline.

MR. McKEAN: Yes, this is assuming a load forecast which, as Manitoba's load goes up, we of course will have less surplus to sell and the revenue would drop. Now, that drop in revenue can be offset if the price goes up. So, they are projections, and I guess there is no projection we have got in these projections that has more room for variation than that one. I hope it is upwards.

MR. DOERN: On that other line of excess of revenue over expenses, you have minus 10 million or this year, minus 30 in 1980, and so on. Is that directly related to this so-called guarantee by the government in relation to the exchange rates. Is that \$30 million presumably reflecting this figure?

MR. McKEAN: No, this was our projection prepared on the 22nd of February before the policy of the government. This was to inform the government at that point in time what our estimate was or the next five years.

MR. DOERN: So does this mean, then, that in 1980 there might have been a \$30 million deficit, but in '81 on, there would have been a surplus, freezing the present exchange rates? No?

MR. McKEAN: This is assuming — you notice at the bottom we are assuming an 18.2 percent rate increase in 1980.

MR. DOERN: This is exclusive of exchange rates.

MR. McKEAN: Well, the exchange rates are assumed. There are assumptions for exchange rate in here, but the 18.2 percent increase, for instance, shown in 1980 is assuming that the rates would go up there, and down 14.7. This is a hypothetical estimate. There had been no decisions on what would be done, and the decisions on any rate increases would be made when later information would be known. But it was to attempt to inform the government at that point of what we saw in the next five years.

MR. DOERN: Fine, thank you.

MR. CHAIRMAN: Mr. Craik.

MR. CRAIK: On the same question, Mr. Chairman, while we're on it, as I recall, this table was drawn up on the basis of this production, from this being entirely hydraulic too. I don't see any thermal costs in there, is there?

MR. McKEAN: There is a little bit of thermal, you will notice, under fuel, under expense there. There is some fuel in there and the only thermal is based upon the fact that we have a contractual condition to take an amount of fuel, quite small, and of course the other part of that fuel is some diesel fuel for our remote sites. But in general, in this period, it is expected that based upon the load growth that we were using here, that we would have surpluses without the use of thermal. This is also based upon average water conditions and as we pointed out, that could vary very dramatically, whether or not you had low water conditions or high water conditions.

MR. CRAIK: If you have high water conditions, you still can't get any more exports because your lines are loaded.

MR. McKEAN: Well, we could, once the line to Minneapolis comes in.

MR. CRAIK: Once it comes in, but if you get lower water conditions, then of course you are into more thermal generation . . .

MR. McKEAN: Or reduced export. You would reduce your surplus Hydro first.

MR. CHAIRMAN: Mr. Green.

MR. GREEN: Mr. Chairman, I would like to get back to 1979, this year, and try to again make sure that I properly understand. In 1979, you projected, without any government help that you would lose \$10 million and that would reduce your reserves from 50 million to 40 million. That was your projection when this projection was forwarded on. Now, as a result of what we now know, not only did you not reduce — without any government help, without any government help at all — the figure of 10.1 million excess of revenues over expense is changed to plus 8, and we remove the brackets.

MR. McKEAN: Maybe, if you look a line ahead of that, that 41.7 became 45. In other words, the actual was increased, improved by \$4 million. Now, that 51.8 decreased because of the improvement in the Canadian dollar at that point, and we estimated that became 38.

MR. GREEN: All right.

MR. McKEAN: And that would be a plus 7 there instead of a minus 10.

MR. GREEN: All right, so that's a swing of \$17 million. That's in two months, a swing of \$17 million in two months, so that instead of . . . That's what happens when you speculate on money, eh? So instead of \$40 million — this is not hydroelectricity — this is . . . two things have happened. One is that your extra-provincial sales have gone up from the 78 to 83 and your money has changed from 51 to 38, which is \$13 million and therefore you are able this year, without one penny of government help, and assuming the responsibility for the loans that were made on your behalf to make \$8 million. Is that right?

MR. WEDEPOHL: That's correct, yes.

MR. GREEN: That's right. And the money that you borrowed at these Swiss franc rates — and that was a speculation at the time on which you earned \$13 million, by the way, in two months — that also resulted in your being able to get the \$83 million in export sales. That was part of the investment. And what the government has said, you tell us, is that you're going to have the benefit of that loan, but you're not going to have to pay the problem that results from money having changed in value. Isn't that right?

MR. WEDEPOHL: That's right.

MR. GREEN: But even before they told you that, you were operating so well, that even given this horrendous change in the Canadian dollar, you were going to be able to absorb that and still make \$8 million this year.

MR. WEDEPOHL: Yes.

MR. GREEN: Now, I'm going to, Mr. Chairman, not because I wouldn't just love to keep on doing this, but I'm going to, in a minute, ask to postpone some of my questions for my colleague for St. Johns, who asked the questions which led to the release of this projection. And then I'd like to do that, and still have an opportunity to ask questions after the Member for St. Johns, if I may.

But before I do that, because I am sure it's going to be demonstrated here that there is no need for one cent in government subsidy for you to have stable rates for five years on the basis of what you've told us in 1979, and that will follow through.

But assuming that you did, assuming that you were having these great problems, and that Mr. McQueen, is it?

MR. WEDEPOHL: McKean.

MR. GREEN: McKean felt quite properly that you should not show this figure at what you loaned it at, you had to show the figure at the present cost in Canadian dollars to repay. That's your problem, you want the balance sheet to show the present figure at Canadian dollars which you are required to repay on those loans. You feel that doing otherwise would be to hide your head in the sand.

MR. McKEAN: Could I answer that?

MR. CHAIRMAN: Mr. McKean.

MR. McKEAN: This amortization is not to state it that way. I might say the American policy was to convert it to the amount at 31st of March. This amortization is a means of moving so that, by the time the debt matures, you state at that point . . .

MR. GREEN: I understand that.

MR. McKEAN: . . .this \$51 million that is shown here is only part of the . . . in fact, at this point, it was over \$400 million . . .

MR. GREEN: Because of the change in the dollar since that day.

MR. McKEAN: It was to move in that direction, not . . .

MR. GREEN: I understand that, but really, this is the integrity of accounts that you're concerned with. It's not the actual payment of the money yet, although certain moneys would have to be paid — I think you said in June of 1980. But right now, you're talking about the integrity of accounts. You've borrowed money, which you said was going to cost you \$100 million, you now feel it's going to cost you \$120, and therefore you want to show it on your books as \$120 million. I haven't used the actual figures, I've used an example.

MR. McKEAN: I could maybe point out, to give you some idea of the impact of this to us, is that this identical figure that we talked about this year of 373 million, was 290 million a year ago. Now,

the deterioration, and in fact last October it went up to 471 million, so it jumps all over the place.

MR. GREEN: Of course, Mr. McKean. And really, if you wanted to go the full logic of your position with regard to integrity of accounts, which I respect but which I say is impractical, you could show it every day. Hydro debt went up today by 10 million, went down tomorrow by 10 million, went up today by 20 million, and really you're hiding your head in the sand unless you do it every day, maybe every hour, they've got people who do it every hour. But what you were worried about, and I respect this, is that you didn't want anybody to think that you could get out of paying what you show is \$100 million debenture, or you show it in Swiss francs it's going to cost 100 million, that it's now going to cost you 150, and that's what you wanted to do. And you say, Mr. Chairman, that that was a CICA recommendation, not a rule.

MR. McKEAN: Indeed, yes.

MR. GREEN: A recommendation. Not a rule.

MR. WEDEPOHL: This was my understanding.

MR. GREEN: I believe it is not a rule, it is a recommendation.

MR. McKEAN: What it was, Mr. Green, was it was to become a rule, as issued by the CICA, it was to be instituted by all companies, starting in 1979, in order for their auditors to continue to say that they had been following generally accepted accounting principles. Now, what they have done is they have deferred that date.

MR. GREEN: I understand that they have not now made that recommendation. In other words, they have not made it, the recommendation just as you have said it is deferred.

MR. McKEAN: The date of implication has been deferred.

MR. GREEN: So I gather that what they are now saying is that until this date one can do it this way, one can do it that way, or as we say in Yiddish, "mi ken azoy, mi ken azoy". But you can do it either way.

MR. CHAIRMAN: Mr. Green, for Hansard, how are we going to spell that?

MR. GREEN: Okay. What you are saying is that you prefer not to hide your head in the sand. You prefer to show it at the figure that you know it to be today, even though next week it could go down by 13 million. You're just choosing an arbitrary day, isn't that right?

MR. McKEAN: Well, I think the 31st of March 1979 is a better day than the 30th of April 1971. We had it in at . . .

MR. GREEN: Mr. McKean, I think that June 9th is a better day than the 31st of March.

MR. McKEAN: I agree with you.

MR. GREEN: But you're not putting it in your books on June 9th. You never suggested that, did you?

MR. McKEAN: Well, we change our books monthly.

MR. GREEN: But your statement comes out, your statement comes out at the end of the year and that's where you show that liability.

MR. WEDEPOHL: Mr. Chairman, I think in fairness to Mr. McKean, he's taking a bit of a beating here, and I ought to take that because this was a board decision and Mr. McKean . . .

MR. GREEN: Oh, my goodness, I didn't think it was a beating, I thought I was being nice to him.

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MR. CHAIRMAN: Mr. Green, would you let Dr. Wedepohl conclude his remarks.

MR. GREEN: I have no intention of giving . . .

MR. CHAIRMAN: Mr. Green, would you let Dr. Wedepohl conclude his remarks?

MR. WEDEPOHL: I simply wanted to say that I accept the point you're making. I'm simply saying that this was a board decision and that was so taken to the corporation . . .

MR. GREEN: Mr. Chairman, may I quickly say that I do not say that there is anything wrong with this decision, I'm saying that it can be done either way.

Now, Mr. McKean, knowing what I do about auditors and accountants, would it not have protected the professional integrity of Hydro if the government — not made a Budget speech and passed a bill, of all things, a bill — sent a letter to Manitoba Hydro and said, we, the government, will back you up to show your debt at the borrowed figure, rather than at the immediate rate of exchange, and that will enable you to transfer \$51 million, which is the exchange rate, into the other features of your Budget which would give you the reserves that they are now giving you.

MR. WEDEPOHL: Mr. Green, I think, in this respect, we respond to what governments ask us to do and we request of governments.

MR. GREEN: I'm not asking you that. I'm asking you, because I know that it has been done, that a simple letter from the government saying that we will accept responsibility for the amount shown on your debt to be stated in the borrowed dollars rather than showing the exchange loss, and that you will reflect that in your books, there will be a note on your statement. And that if that were done in the year 1979 what you will have shown is no increase, based on these figures, based on these figures you would have shown no increase in rates; and if you follow 1980, 1981, 1982 and 1983, you could, in each case, remove the 35 million, 11 million, 17 million and 12 million, and show them in the revenue part of your ledger.

MR. WEDEPOHL: Your question is that the government should have simply written us a letter to this effect, re what in effect was stated in the Budget.

MR. GREEN: That's right, that you don't need a bill, you don't need legislation. And what is more — and this my friend from St. Johns will show — you don't even need the undertaking, based on the 1979 actual, and based on the figures that you have given us in these projections. I'm going to yield for a moment, I want to come back, but I want to yield to my friend, the Member for St. Johns to carry this forward because I don't see that you are not having stable rates for the next five years, based on the 1979 figures.

MR. CHERNIACK: Thank you, Mr. Chairman. With that introduction I guess all I have to do is go through a little arithmetic, but it is important that we do clarify that, and therefore, I would like to go through the arithmetic dealing with the third last line, that is reserved provisions which starts with the bracketed 10.1 million, and just carry it through. And I'm now starting with 7 million plus, rather than the negative 10 million, and I assume that that 7 million, which we have just agreed it is a gain, is to be added to the 40 million that shows up in the statement?

MR. GREEN: Did you just remove the 10 and add 10?

MR. CHERNIACK: Could I get a clarification? Is it to be added to the 40 or to the 50?

MR. CHAIRMAN: Mr. McKean, are you in a position to answer that?

MR. McKEAN: I've got to catch up to your question again. You're talking '79 now ?

MR. CHERNIACK: End of '79.

MR. McKEAN: The end of '79, projection at this point, the statement is telling you that the 41.7 was not sufficient to take care of this unrealized loss provision, and therefore, we would draw on our reserves by \$10 million that year.

MR. GREEN: That's what this statement says.

MR. CHERNIACK: Would Mr. McKean, Mr. Chairman, update us to what you now know, and I think what you are telling us is that you will have 7 million extra.

MR. McKEAN: Yes, yes.

MR. CHERNIACK: 17 million more than the figure and that makes this third line as a plus 7, rather than a negative 10, which is 17 million differential.

MR. McKEAN: That is correct.

MR. CHERNIACK: Right. Now, would you add that 7 million to 40 million from the previous year or to 50 million that was stated by the Chairman.

MR. McKEAN: We had 50 million the year before.

MR. CHERNIACK: Pardon.

MR. McKEAN: We had 50 million the year before, so the 7 would go to the 50.

MR. CHERNIACK: So, may I then take you to the next column, 1980, and assume we are starting with \$57 million in reserve.

MR. McKEAN: Right.

MR. CHERNIACK: And may I then deduct the 30 million, on the assumption that you do not yet predict an increase in revenue or a decrease in the deficit?

MR. McKEAN: In 1980, what it shows there is that we'd had 5.4 available before the amortization.

MR. CHERNIACK: Yes.

MR. McKEAN: o, if you wiped out the amortization, the increase to reserves that year is 5.4.

MR. CHERNIACK: Would you be inclined to wipe out that 5.4 today — doing this statement today?

MR. McKEAN: Oh, I think the 5.4 probably will be improved.

MR. CHERNIACK: Yes.

MR. McKEAN: I think the biggest improvement, as you pointed out earlier, is that it includes an estimate of extra provincial 72.8.

MR. CHERNIACK: 72.8. All right, for simplicity's sake and for my arithmetic slowness, I will accept your figures, which I think now clearly are underestimates. I might even say conservative in the application of surpluses or in exaggerating, not deliberately but in today's date, that the reduction will be less. But taking the statement as they are, we're starting 1980 with 57 million — I think that's correct — if we deduct the 30 million, knowing that we would not expect to deduct that much, but if we deduct the 30 million, we would end up that year with 18 million in the reserve. Is that correct?

MR. McKEAN: 27.

MR. CHERNIACK: I'm sorry, of course, 27 million, and then we start the next year with 27 million and we would add 8, and we would have 35 million at the end of 1981. Is that correct??

MR. CHAIRMAN: Mr. Craik.

MR. CRAIK: I'm sorry, Mr. Chairman, on a point of arithmetic, shouldn't you not be changing your top line by the amount of the . . . the percentages are being worked in as you go along. Rat

changes are being made.

MR. CHERNIACK: There are no percentages in what I'm working at. I'm working on the third last line, which does not involve percentages — the second last brings in percentages.

MR. CRAIK: Your third last — sorry, maybe I'm lost in the arithmetic here too — but it shouldn't by the time you get over to 1980-81, the rate change that took place of 18.2 will have affected the line above and come down and affected your third last line.

MR. CHERNIACK: Oh, well, let's get that clear. I think what Mr. Craik is believing is that the top line . . .

MR. CHAIRMAN: Mr. Cherniack, can I stop you for a moment? Mr. McKean.

MR. McKEAN: I may have misled earlier, but the top line does not include rate increases. Those are at the present approved rates.

MR. CRAIK: Oh, I see, okay.

MR. CHAIRMAN: Now, Mr. Cherniack.

MR. CHERNIACK: Mr. Chairman, that's a crucial statement, I'm glad Mr. Craik raised it because I was going on the correct assumption that the proposed or required increase, suggested by Hydro, is only the second last line and the impact is the last line, and that's why I'm dealing with the third last line, which as I understand it, is based on existing rates. So, now that I've lost my train of thought, I want to go back to the beginning of 1980 with a reserve of 57 million, and I'm deducting 30 million from that, being left with 27 million reserve, and I plead with you, Mr. Chairman, to have any of the gentlemen stop me when I go wrong in my arithmetic. I carry forward 27 million to the beginning of the 1981 fiscal year and add the 8 million for that year, and I've come to 35 million. I then carry forward the 35 million to the beginning of the 1982 year and I add another 7.5, so I get 42.5 million, and I carry 42.5 million to 1983 fiscal year, adding 2 I get roughly \$45 million in reserve, which is in excess of the reserve shown in the statement before us at the end of last year. Now, is my arithmetic correct?

MR. CHAIRMAN: Mr. McKean, are you in a position to answer that?

MR. McKEAN: I think your arithmetic is correct. I might point out that the 50 million at the end of last year was following two years of drought. We were subject to a good deal of criticism that those reserves are very inadequate for a utility. I went through quite a number of sessions on the fact that our debt equity ratio was only 98.2 and all the other utilities in North America had better debt equity ratios than ourselves. So considering the size of our debt, I think it's fair to say that we were in agreement that it was a very minimal figure and our plan is always in our provision that we should be gradually increasing our reserves, not largely, but. . .

MR. CHAIRMAN: Mr. Cherniack.

MR. CHERNIACK: Mr. Chairman, I appreciate Mr. McKean's point of view and therefore I would like to take him back about four or five hours to remind him that one of the first questions I asked brought out the fact that we Manitobans have an equity in our 4 billion, billion business of 2, 3, and therefore, a shuffle of \$100 million in reserve compared with our investment and our equity, is as some C.D. Howes might say: "Not too meaningful in the long run".

But in any event, I have ended the 1983 year with a \$45 million reserve and now I want to go backward and just want to see if I am correct in assuming that the projections, if they were made today rather than in February, would be considerably more in the light of what we've learned in the interval and the \$45 million would be substantially more than the calculation we've just arrived at. Is that a fair statement?

MR. CHAIRMAN: Dr. Wedepohl.

MR. WEDEPOHLM: Mr. Chairman, if Mr. McKean could comment on that specific one. I think I could agree with that last statement.

MR. CHAIRMAN: Mr. McKean, and then I'll get back. . .

MR. WEDEPOHL: Well no, I was going to comment on two points. I think your statement is probably correct. I think our revenue expectations are bigger because it was only in March when we realized the political implications of the oil. But the other point you were making is that you were saying that we have this capital asset of some considerable number of billions of dollars and therefore a bit of fluctuation in the reserves doesn't matter. I don't think that is quite correct; if we were looking for loans, for example, I think the U.S. investors would be looking very carefully at our reserves and we have heard some criticisms about this. So I think that it would be not very responsible of the Board simply to disregard this and let the reserves go down.

MR. CHERNIACK: Mr. Chairman, I do want to interrupt my train of thought to comment that I have not negotiated a loan for government or for Hydro for two or three years, but I was not deaf then, and I did not hear problems about Hydro's credit standing and I lived through an increase in Hydro in Manitoba's rating when I don't think the situation was that much better than it is now. I want to get back to my arithmetic'

I have ended the five-year term with a reserve equivalent to the start of this five-year term, minimally and conservatively because we have not built into the subsequent four years, the experience — what is it "expedential curve"? Maybe I shouldn't use words I don't fully comprehend — but I do believe that I have agreement that Mr. McKean would have increased the excessive revenue over expense by certain millions of dollars and therefore the \$45 million would be greater. The important point I'm making is that that line is before any rate increases and therefore, my conclusion, Mr. Chairman, and now I would love to hear a response, but my conclusion in any event is that there is no need on this table for an expectation of a rate increase in the next five years in order, if one is satisfied, to maintain the reserve at approximately what it is now.

And that is my conclusion that the old talk about rate freeze is meaningless and that Hydro, in the next five years, could well handle the fluctuation in foreign exchange rate as we know it today. In other words, it would be a greater problem if the Canadian dollar depreciates or deteriorates more than it is now. But on the basis of what it is now, that Hydro in the next five years would be able to handle the present deterioration of the Canadian dollar without having to expend a greater overall sum out of its reserve, and without having to go into deficit or borrowing position. That's on this table projections.

I now want to move quickly and then leave it — Mr. Green wants the floor back — to the line "unrealized loss or gain on foreign debt maturities" — and where it shows \$51.8 million for fiscal ending 1979, which we are told would now read about 38 million, how much of that is an actual expenditure? I believe the answer will be "none" but I want to know, an actual cash disbursement.

MR. CHAIRMAN: Mr. McKean.

MR. McKEAN: You're correct; it's a provision to be realized as debt at maturity.

MR. CHAIRMAN: Mr. Cherniack.

MR. CHERNIACK: Now, Mr. Chairman, very specifically, how much in fiscal 1979-80 would Hydro have to pay out in cash to take care of the foreign exchange loss from its statement of liabilities: to payment of whatever is required to be paid in this fiscal year, which I know is interest and some principle?

MR. CHAIRMAN: Mr. McKean.

MR. McKEAN: The debt which was maturing in 1979-80 to do with this was this Swiss issue that we talked about earlier.

MR. CHERNIACK: May I interrupt, Mr. Chairman?

MR. CHAIRMAN: Mr. Cherniack.

MR. CHERNIACK: To the terminology. I believe the debt was maturing in June 1981.

MR. McKEAN: That's right, but the government's to retain them. 1980.

MR. CHERNIACK: June, 1980. Correct.

MR. McKEAN: And the government has exercised the option to call it a year early.

MR. CHERNIACK: Mr. Chairman, my question was on the basis of this statement: without government's interference, how much money in cash would be needed by this Hydro in the year April 1, 1979 to March 31, 1980, how much in cash would Hydro have needed to take care of the loss in exchange, in cash. And I said I know that there would be bound to be interest paid and maybe some principle I think under the units of account loan.

MR. McKEAN: There's two other issues, the unity of account loan and also their Deutsche mark issue are serial maturities, plus this one Swiss one which as you correctly said has been called a year earlier from the original date of maturity, so there are three.

MR. CHERNIACK: Mr. Chairman, does Mr. McKean know — and he may not know — how much that represents in dollars in this current fiscal year in which we are living today and from which the government is asking \$31 million from the taxpayers? How much in cash?

MR. McKEAN: The \$31 million is their estimate of the difference between the exchange at maturity of those three issues and the book value that they're switched into our loan. I think about 27 of it was on the Swiss issue and the other 4 is on the two serial issues.

MR. CHERNIACK: Mr. Chairman, I must tell Mr. McKean through you, I'm not asking him to tell me what the government is going to do with it, I'm just trying to compare what the government wants from the taxpayers on its estimates of \$31 million, for which he's not accountable, and how that compares with the actual amount of cash that Hydro would have had to pay or would have to pay in this current fiscal year to service the liabilities — whatever they are in capital — to the extent of the foreign exchange without government interference. And I will now tell Mr. McKean that I believe that it's the interest which they will be required to pay and a small amount of principle, which I believe is somewhere in the neighbourhood of less than \$8 million — I'm sorry, \$4 million — and leaving out that 27 million or whatever it is on the Swiss loan which would not mature in the current fiscal year.

I am speculating — I'm more than speculating, I'm pretty sure — that the actual amount in cash that Hydro would have to pay in this year in cash, in this current fiscal year, would be \$6 million. Am I out; am I wrong?

MR. CHAIRMAN: Mr. McKean, are you in a position to answer that?

MR. McKEAN: If I understand you correctly, you're assuming that call wouldn't be made; it would be left to maturity?

MR. CHERNIACK: Well, that's right. We have a loan, it's not due.

MR. McKEAN: Keep in mind that call could have been made, regardless of what had happened. There was discussion of that call before the freeze.

MR. CHERNIACK: Mr. Chairman, I don't want to put Mr. McKean in too difficult an understanding, but let me go. . .

MR. CHAIRMAN: Mr. Cherniack, can I stop you for a moment?

MR. CHERNIACK: Sure.

MR. CHAIRMAN: Let Mr. McKean finish his answer.

MR. CHERNIACK: Oh, I thought I'd help him.

MR. McKEAN: No, what I was going to say is, the fact that the call was independent it moved and all it did was from one year earlier than the year it would occur. Now I've got to say that that decision is a decision of the fiscal agent of Manitoba Hydro, who is the Minister of Finance.

MR. CHERNIACK: Mr. Chairman, I have to tell Mr. McKean that I fault the Minister of Finance for not having done it last year because I think that last year it would have been worth the additional half percent penalty to get the favourable rate that was available last year. So I would say to Mr. McKean that there's no doubt in my mind that Hydro would have done what the government did, and that is roll over the loan, which means not pay the foreign exchange at all in this year but postpone it by a roll over. Therefore, to me, that loss would not take place until June of 1980, if then it was not rolled over, and I believe it would be and I believe it will be. But I'm talking about this fiscal year and I'm still saying to Mr. McKean that if they were to take advantage of the prepayment privilege under the Swiss loan they would have rolled it over and not paid the exchange, because they would have borrowed 100 million Swiss francs to pay 100 million Swiss francs and get the advantage of a reduced interest rate, and that they would only have to pay out interest on all their foreign loans and some principal on the Deutsche mark loan and the Units of Account loan. And I must tell him that it is my impression that it would be I don't know, \$6 million, \$7 million, or \$8 million, and I would like to know what is correct. And if that isn't available, could we get it pretty soon because we'll be dealing with the other side of this transaction very soon.

MR. CHAIRMAN: Well, if you're asking Mr. McKean for some facts and figures, he can answer it. If you're asking him for an opinion, I don't think. . .

MR. CHERNIACK: No, no opinion, no. Mr. Chairman, I'm not looking for an opinion. I wouldn't want him to be in that position; maybe Dr. Wedepohl would be but not Mr. McKean. No, I just want to know how much is payable? Surely Hydro must know how much its liabilities are on their borrowing for this current fiscal year and how much of it, when translated from Canadian dollars into the currency in which it is payable, will cost?

MR. CHAIRMAN: Mr. Craik.

MR. CRAIK: Mr. Chairman, I'm wondering, we're going to be going into the Bill that takes each issue and replaces it, and when we do that we can come back and I think we should be able to provide that sort of specific information. Mr. McKean may not have it here. We may end up duplicating effort in order to get it because we will be going through them one by one. There is replacement formula for each of the issues.

MR. CHERNIACK: Right, that's reasonable, but Mr. McKean won't be available at that stage. It'll be the finance side, I assume, and therefore, I would like to ask the Minister if he is prepared to see to it that when we're in committee on that, that we do get Hydro input to confirm or disagree with whatever information we're given. And, at the same time, find out if Mr. McKean has the information; by all means, I think he should supply it, if not right now, then when we're dealing with it, so that we have the full picture. I think that that is the way . . .

Now, the other thing on the . . .

MR. CHAIRMAN: Can I get an answer for your question from Mr. Craik now?

MR. CHERNIACK: Sure.

MR. CHAIRMAN: Mr. Craik.

MR. CRAIK: Well, yes, we'll see that all the information of that nature is made available on the specifics of the loans they're fairly ; easy to take out in the list here. And in the final computation I'm assuming that all of that would have to be available anyway, and I would suggest that we deal with it when we deal with the bill itself. If you want to have Hydro available, if Mr. McKean wants to come down, that's fine as far as I'm concerned.

MR. CHAIRMAN: Mr. Cherniack.

MR. CHERNIACK: That's fine, Mr. Chairman, that's helpful. May I then ask Dr. Wedepohl if Hydro is involved in the calculations and computations that will be presented to us by the government; is it now involved, or is it just to be available if needed?

MR. CHAIRMAN: Dr. Wedepohl.

DR. WEDEPOHL: Mr. Chairman, I'll have to hand it over to Mr. McKean.

MR. CHAIRMAN: Mr. McKean.

MR. MCKEAN: We are in the process of meeting with the representatives of the government. We have met, and I have no doubt in my mind that the figures will be mutually agreeable to us. I think maybe to answer your question in this connection, I haven't seen anything that would cause us to say that the figures that are being presented we're not in agreement with, and the only question that might come is, you can do a calculation, as you say, any day of the week on exchange rates. Certainly as far as providing input of information to the bill, we have had the opportunity to consult with the representative of the . . .

MR. CHERNIACK: Mr. Chairman, then I have a request to make to the Minister, and to Hydro, and that is that when we are given that information, we should be given it in the following form which would be helpful to us: No. 1 — the interest that would be payable by Hydro on the foreign currency basis in Canadian dollars; that is an understanding of what it would cost to pay the loan, at that interest rate, in that currency, and compare with that with the amount that Hydro is going to have to pay the Manitoba government after it's converted it into Canadian interest rates back to the rate as at the time of borrowing, so we can get a comparison of the cost to Hydro of interest, as between what they would normally pay, and what they will now be required to pay at a higher interest rate, but no exchange rate. I think that should be clear. And that would then show the impact of the translation as between gain or loss for Hydro, and therefore corresponding loss or gain for Manitoba.

And the same thing if it were done in connection with principle, would then give us a netting out of the loss or gain — and I presume it's loss to the taxpayer and gain for Hydro for this current year — netted out for this current year, so we'll know just what is this year's cost to Hydro for which the government is compensating Hydro, and which Hydro will then gain, and the taxpayer lose.

I hope that's clear, what my request is, and I hope it'll be accepted. It would be otherwise be a cost to Hydro, and will now become a saving to Hydro, and the cost to the Manitoba taxpayer.

MR. CHAIRMAN: Mr. Craik.

MR. CRAIK: Mr. Chairman, on the points that have been made, I think there's a drift around toward making a case for operating Hydro with a reserve of around \$40, \$45 million as being adequate, and I want to just bring back the discussion that was dealt with very briefly this morning with regards to the assumptions that are made that go into this, and that is that there is adequate water levels.

And also, Mr. Chairman, I'm looking at a chart that shows at the current rate of return, and the average median flow levels, and the availability of water, an income from interchange that , just projecting it across, is, I think, the figure you've got and shown here in the \$70 to \$80 million range.

But when you go down to the low flows — and as I recall, the low flow figure was the 1976 figure, the income from the interchange is only \$40 million. In other words, the drop that you would get with 1976 conditions would be a drop in income from sales of \$40 million.

Mr. Chairman, I just want to say that that shift wipes out a \$40 million reserve in one year, and that experience has taken place. Now, what we're talking about here, in the way of reserves, is to my way of thinking is perhaps not as important from the point of view of investors as it is from the sheer fact of life that mother nature is going to control the . . . whether or not we can achieve this itself, on its own, and whether or not \$40 million is adequate reserves.

And the judgmental decision that has been made by the government is that a reserve picture for Hydro, in conjunction with discussions with Hydro, should be up around the \$100 million mark as a minimum, from which Hydro should operate from. And that, in part, has been the basis for this. But, even at that, unless the flows are maintained, the \$100 million level in the projections that we have done may not be maintained.

If, on the other hand, the rates of return on the export sales increase — and hopefully they will, as has been indicated by you, Dr. Wedepohl — it will ease that picture. But the question marks that you can't answer through the arithmetic are far more ponderous and unquantifiable than the ones we're attempting to deal with, and therein lies really the basis of the move that the government has made by removing the debt obligation in terms of the foreign currency fluctuations; it has simply provided a guarantee of a reserve level that would be normal for a utility like Manitoba Hydro to

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operate confidently from, and to undertake the five-year guarantee on rates.

MR. CHAIRMAN: To the members of the committee, before I recognize you, Mr. Green, we started half an hour earlier this afternoon than the 2:30 mark, and we would normally finish at 5:30; it is now 5:00. Can we wrap up this Hydro report in the next half-hour, or three-quarters of an hour, and is it worth staying for that, or should we have another meeting?

MR. GREEN: I don't know whether we can wrap it up, Mr. Chairman, but I would like to . . .

MR. CHAIRMAN: I'm asking you and other members, how much more questioning do you have?

MR. GREEN: I have some questioning, Mr. Chairman.

MR. CHAIRMAN: Less than half an hour's worth?

MR. GREEN: I don't know.

MR. CRAIK: I'm sorry, Mr. Chairman, I'm not trying to corner on the . . .

MR. CHAIRMAN: Is it worth staying half an hour to wrap up the report, or another full meeting?

MR. GREEN: I would like to stay a few minutes, and then have another meeting. I promise to wrap up my questions in a few minutes, but then I would like to come back.

MR. CRAIK: Well, Mr. Chairman, if we are coming back, I have to mention — I think, Dr. Wedepohl, you're going to be away tomorrow, and you'll be away Monday?

DR. WEDEPOHL: Yes.

MR. CRAIK: And perhaps if the DC-10's are flying, you're back in on Monday night.

DR. WEDEPOHL: If the planes should move, I'll be back on Monday night. I'm in Chicago, and there's a DC-10 problem.

MR. GREEN: Mr. Chairman, I am sure we'll be able to arrange it; I'm sure that I will be not more than ten minutes. I would like to deal with the reserves that my honourable friend says we're taking away, because I intend to give back to reserves, Mr. Chairman, and still find no rate increase.

MR. CHAIRMAN: All right, is it the wish of the committee to carry on?

MR. GREEN: On the basis of these projections.

MR. CHAIRMAN: Is it the wish of the members of the committee to carry on for another ten minutes or so? (Agreed) Mr. Green.

MR. GREEN: Dr. Wedepohl, I want to first of all tell you where I am going, so that there will be no misunderstanding. I am going to suggest that by this proposal, what it tells me — and you will tell me if I am wrong — that you will have no rate increases, that you don't have to have the experience of 1979; we can take your pessimistic experience of 1969; that you don't need the government protection on the debt amortization; that you don't need any rate increases; that you could be dealing with, I gather, average flows, — when I say "no rate increases", I'm going to change that to "minimal" increases and you will still have reserves of \$120 million. —

MR. LYON: That's what we were told six years ago.

MR. GREEN: Well, Mr. Chairman, that's what this statement says, and I want to see whether Dr. Wedepohl doesn't agree. You do not show on this statement the rate increase in 1979. —(Interjection)— You don't, and you do have Hydro assuming responsibility for the loss of exchange, is that correct?

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DR. WEDEPOHL: There was one here, but . . .

MR. GREEN: There's no rate increase shown for 1979.

DR. WEDEPOHL: That's right, yes.

MR. GREEN: I'm looking at the proposal that they have given the Projected Operating Statement, rate of increases — there's nothing shown for 1979.

DR. WEDEPOHL: Mr. Chairman . . .

MR. GREEN: Other than the ones we've already had, there's no future rate increase shown on this one.

DR. WEDEPOHL: As I understand, Mr. Chairman, that this does show a rate increase. This is dated the 22nd of February; there was a rate increase, I think, on the 1st of February.

MR. GREEN: Oh, but Mr. Chairman, the government is not going to undo that rate increase. I'm talking about rate increases from now on.

DR. WEDEPOHL: That is correct.

MR. GREEN: The government has not said that they're going to undo the one that has already been enacted, so I'm taking it from my worst point of view, that there is no rate increase shown in 1979, no future rate increase this year — correct?

DR. WEDEPOHL: Yes, that's correct.

MR. GREEN: My goodness. Well, it's right here on the statement, that in 1980, you show a rate increase of 18.2 percent. Now I'm going to get you to the \$120 million reserve, which you want — you people want that reserve, and for the moment, I don't want to take it away from you. But the following year, you show a decrease of 14.7 percent. Now, no utility in its right mind is going to increase rates in 1980, and then reduce them in 1981, so would not the 14.7 percent offset almost entirely the 18.2; and if you didn't do anything either of those years, you would have stable rates with no increase.

And I warn you, Dr. Wedepohl, when I was 14 years old, and worked in a retail department store, I earned that 50 percent on cost was 33 percent on selling, and therefore the 14.7 percent is more of a reduction than the 18.2 percent is an increase.

DR. WEDEPOHL: No, it's compound interest.

MR. GREEN: Mr. Chairman, Doctor, you know, I don't have to listen to him, because he doesn't know what he's talking about. Dr. Wedepohl, am I not correct?

DR. WEDEPOHL: Well, ostensibly yes . . .

MR. GREEN: Ostensibly correct. If not exactly, for purposes other than small amounts, the 14.7 would bring us back to the increase that we got in the 18.2.

DR. WEDEPOHL: Yes, my understanding, Mr. Chairman, and I have to confer again that there was a reason for that in terms of revenue that were acquired in that year, and I would stand corrected before this.

MR. GREEN: I'll lend you the revenue and you will give me a mortgage on it. The fact is that I'm talking about finance . . .

MR. CHAIRMAN: Mr. Green. Mr. Green. Mr. Green, can we let Dr. Wedepohl finish at least one of his answers for you?

MR. GREEN: Yes.

MR. WEDEPOHL: You know, I think I simply want to confer with my colleagues again, Mr.

Apparently from my colleague here, with his knowledge of accounting, which I don't have, it was arithmetically pure but not sensible; it was to do the progression through their arithmetic.

MR. GREEN: Exactly, so you wouldn't do it that way, and what I say is arithmetically correct, the what you would do is wipe out the increase in 1980 and not have a decrease in '81 and you would have stable rates for those two years and I see Mr. McKean nodding his head. That's correct

A MEMBER: Closer, closer.

MR. GREEN: Well, close, Mr. Chairman, you only want reserves of 120 million. I got 20 million to work with and still get to the same position. Now, isn't the same thing true of 1982? You've got an 8.6 percent increase in '82, offset by a decrease in '83 and I submit to you that the decrease of the higher amount would almost be, or very close to, the equivalent of the 8.6 percent increase and that you would not have an increase and a decrease, you would have stable rates—(Interjection)— Well, let him answer.

MR. WEDEPOHL: Well, again, with my lack of accounting experience, Mr. Chairman, that . . .

MR. GREEN: Well, I want Mr. McKean to answer then, if I'm saying something unusual.

MR. MCKEAN: Yes.

MR. GREEN: Yes, well, I'm much happier with your comment than Mr. Craik's because I really don't place much confidence in his comments anyway. So what I have, Mr. Chairman, and I won't say zero, I will say that within \$120 million and I say that it's pretty close to equaling out, but certainly within the \$20 million figure. So that you would have, at the end of five years, without any rate increases, on the basis of this projection, which hasn't taken into account the higher figures that you have now given, haven't even taken in the actual ones for 1979, you will do the following things: you will operate without rate increases; you will pay all of the foreign exchange losses; and you will build up a reserve of \$100 million. Is that not correct?

MR. WEDEPOHL: It appears to be. In fact, I have to say, Mr. Chairman, and I have to say to you, Mr. Green, that I actually have been on record as saying that depending on the nature of circumstances, that Hydro systems eventually don't bring stable rates, they bring declining rates, if we study the history of the Winnipeg River. Where we are second guessing is when it's going to happen. It may be if we get a couple of very bad years, dry years, then it won't happen. If we get very bouyent years, and the oil situation is as bad as we think, it will happen. But I think in the main, in a speculative sense, this could be.

MR. GREEN: But Dr. Wedepohl, I haven't tried to speculate; I've taken your figures and I say that on February the 22nd or whenever these things were advanced, what the Minister had before him were figures, which showed that for five years there would be stable rates in the province of Manitoba. Based on these figures, that the the reserves would go up to \$100 million, and I'm taking off 20, because I want to be conservative and I want to give you the allowances, and that you would take and that you would handle all of your foreign exchange losses. That's what these figures show. Is that not correct?

MR. WEDEPOHL: Yes.

MR. GREEN: Thank you very much. I'm ready to go home.

MR. CHAIRMAN: Are you ready to pass the report?

MR. GREEN: No, no, move that Committee rise, Mr. Chairman. —(Interjections)— Sure, sure, well, Mr. Chairman, I said that I would be through in a few minutes, but my friend, the Member for The Pas, has some questions.

MR. CRAIK: Mr. Chairman, I'll just make the comment that I think in view of the last line of questioning, that there is some question mark on the part of the accounting people with regards to the assertions that have been made and I'd like a little time for them to have an opportunity to digest them. It's all well and good to be put into the position of this kind of a cross-examination and then close the court, but it's pretty clear that there's still some figures being worked on with

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regards to this. I think that it was that, Mr. Chairman, if the Member for The Pas — I don't want to take up more time. Let the gentleman have a chance to have a look at it.

MR. McBRYDE: Mr. Chairman, I'm assuming that we're going to go then till 5:30 and then decide when to continue.

MR. WALDING: There's an argument between two Ministers. One says stop and the other says go. Maybe, you should wait till they finish their battles.

MR. CHAIRMAN: Well, go ahead.

MR. LYON: Let's not be clock-watching. If you've got questions ask them.

MR. CHAIRMAN: To Mr. McBryde and other Committee members, we haven't even dealt with the opening pages of the report yet. The Minister responsible for Hydro says that Dr. Wedepohl perhaps isn't available for a few more days. Can we start goigg either page by page, or can we adopt the report in its entirety?

MR. McBRYDE: Well, Mr. Chairman, we still have some more questions on this side. It's a question of the government having the majority on the Committee, whether they want to go till 5:30 or not go till go ahead. 5:30. If they want to go till 5:30, then we're prepared to

MR. CHAIRMAN: Mr. McBryde, you are recognized.

MR. McBRYDE: Okay, Mr. Chairman, my question then to the Acting Chairman is in regard to the studies that are being done in the area of nuclear power, and I wonder if the Chairman could bring us up-to-date in terms of those studies and the plans, in terms of the rate in which those studies will be carried out.

MR. CHAIRMAN: Just before I recognize Mr. Wedepohl, I might mention to Mr. McBryde, that when he was not present, Dr. Wedepohl was asked numerous questions by your colleague, Mr. Walding, in that very same range of questioning. Again, do we have to go through repeat questions?

MR. WALDING: On a point of order, Mr. Chairman.

MR. CHAIRMAN: Mr. Walding.

MR. WALDING: Mr. Chairman, I didn't mention nuclear energy once.

MR. CHAIRMAN: Sorry, it was Mr. Doern, my apologies, but perhaps if Dr. Wedepohl can give you a short answer, we should hear from him.

MR. WEDEPOHL: Yes, Mr. Chairman. Mr. McBryde, we did have a nuclear study division some years ago, but it became clear that our load growth forecast had been optimistic, and that we were almost in a stationary period for several years, it was decided to discontinue that work and the particular division was disbanded. So for the foreseeable future, there is no intention to look at nuclear. It could come very much later, or if there was a sudden upturn in load depart, which we don't anticipate at the moment, we might then reactivate the thing. But at the moment the status is that there is no work being done.

MR. McBRYDE: Then, Mr. Chairman, if I'm not repeating a question and I'm sure you'll tell me if I am, that was asked by my colleague, and I was aware what the other members had asked but not the Member for Elmwood had asked. I wonder then if the Charrman could explain the relationship between the export of Hydro power and the need to investigate and to eventually go into nuclear power?

MR. CHAIRMAN: Dr. Wedepohl.

MR. WEDEPOHL: Mr. Chairman, the current situation is that I don't think there is a relationship. The situation with export currently, Mr. McBryde, is that we have a surplus of energy. We've got very good water conditions and we also had our own load forecast turned down, so that the reason

for the export situation is simply to take advantage of the fact that we do have tie-line capacity to include our revenue picture. And so there's not an intention to export in order to develop nuclear or anything like that.

MR. McBRYDE: Yes, I think that's fairly clear and that was the nature of my original question because of the miscalculation originally in terms of the demand, and it's happened right across Canada, I believe, or North America, that there might be some change in terms of at least the phasing of the study, but I'm personally quite pleased to hear that there is no need at this point in time to carry that study any further.

While you were commenting though on the export, I would like then for you to put on to the record the concern that is often expressed about Hydro exporting, and it's not my particular concern, but it's one that I have to deal with from constituents. It's the concern that once you start selling power to the United States, there is no way that when Manitoba needs that power, they're going to let you not continue to deliver that power to the United States, and I suppose that concern is added to when you mentioned earlier that when the one line was down, that, in fact, the U.S. Army had to come in and make sure that line was put back up again, which would add to the speculation that there's no way we're going to be able to stop delivering power once we begin delivering power if our need indicates that we need it ourselves. So I wonder if you could comment on that.

MR. WEDEPOHL: Yes, Mr. Chairman, it's not quite the way Mr. McBryde puts it. The current situation with the export says that it is interruptible — I use the words "an ideal source" — we can stop this power right here and now. At no notice, we can just discontinue selling that energy really, to the States, because we need it. It's unlike the contracts that, for example, B.C. Hydro have with Bonneville Power Administration, which is a fixed priced, firm sale contract for the next 75 years. That's a different situation. What our neighbours in the south have said is that they're so desperate for electrical energy that they were willing to take all that we can send to them, and in order to facilitate this thing, they knew we have energy and they needed it, they were willing to put all the effort they could to repair that line. That's not to say that if we turned around and said: "Look, we're sorry, something has developed here; we can't sell you that energy", they couldn't have forced us to sell it, because it's an interruptible thing. There's no contract to sell them power; it's negotiated literally hour by hour as to how much we're going to send them.

So this is why I feel that when I used the words this morning, I would gamble on the sheer knowledge that the oil situation is never going to reverse. I would carry on with that kind of export. You get less money for a short term but it has the great virtue that whenever you need it, you can have it at a moment's notice. There is no renegotiation required, or anything; it's interruptible power.

MR. McBRYDE: Yes, Mr. Chairman, maybe if I get Dr. Wedepohl to help me build up my argument further, the concern that is expressed then becomes a political concern in the sense that if we agree to sell so much power, irregardless of whether the contract says it's interruptible or not

MR. WEDEPOHL: Yes.

MR. McBRYDE: And there is some basis for that. I mean, we can give them some idea of whether we're going to be interrupting it and when, so they have an expectation of a certain amount. Now this amount is steadily increasing in terms of the negotiations that are going on now for further sales, and then at some point our projections are wrong and we say: "No more power, period; that, in fact, then the political pressure would be on in terms of continuing that power supply.

MR. WEDEPOHL: Well, as the thing stands at present, of course, the argument is somewhat hypothetical, but because we have plenty of reserve energy which is untapped and I'm now talking about the unbuilt power stations. We're a long long way off from the point where a crisis could develop here because there was an insistence to send our energy southwards. We've got plenty of reserve energy in the rivers yet.

MR. McBRYDE: The demand figures that you gave us went from 1.something rate increase in demand to 4 was it, 4.something?

MR. WEDEPOHL: I'm sorry?

MR. McBRYDE: Earlier on in the discussion you gave us some figures; the increase in the demand

went from 1.something to — load growth went from 1.6 to 4.3.

MR. WEDEPOHL: Yes.

MR. McBRYDE: Is that because of the U.S. sales or is that. . . ?

MR. WEDEPOHL: No, I believe those figures that I referred to are Manitoba domestic. The U.S. sales are just have just burgeoned. I think they may have gone up 50 or 100 percent in the past year; I don't know, there's been an enormous increase.

MR. McBRYDE: I wonder then what the indications are in terms of the use of the Hydro part of Hydro power, of your power source, if the load growth increases at 4.3 or even at higher projections, what is your projection in terms of our capacity to produce Hydro power?

MR. WEDEPOHL: Well, the current situation would simply be that as our demand grew, as these Tables showed from now until 1983, we would simply throttle back on our U.S. sales as we picked up, until a certain point would come where we'd realize that our own domestic demand was not going to be satisfied with what we've got. That would be the moment in time that Limestone Power Station would be committed as the next phase of the development. So we could just ease back now on our power sales to the States if we needed the stuff locally.

MR. McBRYDE: So the choice right now is to ease back on U.S. sales. My impression of what you're recommending is that we ease back on U.S. sales and slow down construction or speed up construction and speed up U.S. sales. I assume that you're recommending the latter.

MR. WEDEPOHL: I was wearing two different hats, Mr. McBryde. If I'm Chairman of the Board, under The Hydro Act, I think I would have no compunction but to throttle back on the U.S. sales, because The Act doesn't address itself to exports. But if I was not the Chairman of the Board, I was simply saying what I would do is, I would harness this resource and use this to bring prosperity into the province, but I cannot do that as the Chairman of Hydro; only the government can do that.

MR. McBRYDE: I see. Okay, Mr. Chairman, because of the time, I'll move on to a couple of other questions that I have.

MR. WEDEPOHL: Mr. Chairman, I wonder if just as an interjection, if I could just make one comment to Mr. McBryde to remind him of something that he may know about or he may not, and that was the tremendous furore about the building of the second 220 kV line to the States. We had to contend with a few shotguns and some tractors and so on. That line finally went into service and it immediately became base loaded; it was fully loaded immediately. But the power didn't go south; it came north, and that line saved us some very very serious problems in this province because it happened to coincide with the drought. We got into a very very serious situation. So the irony was, that we were being railed at for exporting power to the United States when in fact not only did we not do that, we base loaded northwards for a period of nearly a year, and it was the United States who helped us out of a terribly difficult period when our water situation was so bad. So there is a tendency to forget that the U.S. do help us by virtue of these tie lines. They help us in a reliability sense and in an energy sense and it's as well to remember that. Thank you, Mr. Chairman.

MR. McBRYDE: Yes, I understand that, Mr. Chairman. I wonder if the Chairman could bring us up-to-date on what has happened with what was an experimental project, the ifi wood-gas; cation project Hydro took over the responsibility for that, I believe. The idea was to be able to lower the cost in the remote northern communities of having to haul in fuel to run the small local generators by using a wood-gasification —(Interjection)— I wonder what's happened with that, if that's been mothballed, or if there's still work being done on that.

MR. WEDEPOHL: Mr. Chairman, I think the situation there is that the wood-gasification originally stemmed from an idea from Dr. Graham Campbell, in the time of the previous government, and as I understand it, the investigation was made by the Energy Council of the Manitoba Government. There may have been participation by Hydro, I don't know, but I believe it was a government . . . There was co-operation with Manitoba Hydro, but . . .

MR. McBRYDE: I wonder, then, Mr. Chairman, if the Acting Chairman could bring us up-to-date in terms of Hydro's plans, or what steps does Hydro see right now to overcome this problem in the remote areas. It's a big cost to Hydro, because the local generators have to be supplied fuel from southern Manitoba, at least. Are there plans now, and steps being taken, that might reduce the need to import fossil fuel to generate electricity?

For example, are there immediate plans to extend Hydro lines into some remote communities, or are there other experiments like the wood-gasification that might lower the need for fossil fuel for electricity generation?

MR. WEDEPOHL: Mr. Chairman, the situation is that we've been concerned about this for years, and some very comprehensive study was undertaken, and all manner of alternatives were looked at. Thermal was one; the type of back-boiler, small thermal units, of say 200 or 300 kilowatts; small hydro station where there was an availability of hydro; and various other proposals. But the most recent one is an approach by the National Science and Engineering Research Council of the federal government of Canada, to consider getting another alternative, and that is to use the various ring-type of rotor which some of you may have seen, as a source of wind energy. It looks like an egg-beater, and it has certain advantages over the conventional generator.

And the idea is literally to drop these things into a river, and use the kinetic energy to drive these into submerged generators of small capacity to bring supplies into remote communities. Manitoba Hydro would probably participate in that. It would be a joint venture between the NSEL and Manitoba Hydro.

But, having said that, I would like to ask Mr. Fraser if there are any other developments; there may be.

MR. CHAIRMAN: Mr. Fraser.

MR. FRASER: We constantly review the situation with respect to all the northern communities to see if it's an economic proposition to bring landlines from some other source, and we've also looked at the cost of putting in small, what would, in comparison with what Dr. Wedepohl was just talking about, the conventional small hydro plants. But to date, despite the fuel costs, the costs involved in any of the alternatives have still exceeded the cost of bringing diesel and fuel engines in.

MR. McBRYDE: I wonder if you could just take as notice for me whether there is an intention to put a landline into Moose Lake, and let me know about that at some future date.

MR. WEDEPOHL: Sorry, I missed that point.

MR. McBRYDE: A Hydro line into the community of Moose Lake, whether that's in the planning stage for this community. I don't need an answer right now.

MR. FRASER: Mr. Chairman, I can report that one is under active review right at the moment.

MR. McBRYDE: Okay. That's all, Mr. Chairman.

MR. CHAIRMAN: Mr. Craik.

MR. CRAIK: Mr. Chairman, it's just about 5:30, and speaking for Mr. McKean, in the information that was submitted to me by Hydro, contained in the same letter, there is a table that shows, I think, some further information relative to the discussion that has been going on. I think Mr. McKean has asked about tabling, and it's fine by me. He may wish to give some comment on it at this point.

MR. CHAIRMAN: Mr. McKean.

MR. McKEAN: Yes, I would agree, the line that we were talking about, the bottom line, is a confusing line, because it is a reserve, only taking into account realized losses, and not the unrealized losses.

Now, we have another sheet here, which shows the effective reserves under a 0 rate increase, a 5 percent rate increase, a 10 percent rate increase, and a 15 percent rate increase. For instance, the 0 rate increase comes up in 1982 at \$28 million, which is very close to what Mr. Cherniack — I think your correction of that first year, Mr. Cherniack, came to \$45 million. This chart, I think,

is a much clearer chart for you all to look at. I have asked somebody to make copies, and our intention is to hand out those copies, which I hope will answer the question that was raised by Mr. Green.

MR. CRAIK: Mr. Chairman, on the final comment, where it was indicated something to the effect of \$120 million in reserve without removal of the rate of the foreign currency fluctuation, whether it will shed more light on that as well.

MR. McKEAN: This 120 — you'll notice over on the left-hand side — is the total reserves assuming a 10 percent interest coverage and realized foreign exchange losses. Now, when we were making adjustments for recommendation for rates, even though we were amortizing it, we were not increasing the rates enough to take care of the full amortization, but we wanted to take enough to take care of the realized losses. And this was a calculation which only was taking into account the realized losses that were going to incur in those years. It's, I agree with you, a confusing line to what we were talking about earlier, and all I can say is, I think this second sheet should clarify the situation, which is certainly our hope.

MR. CHAIRMAN: Mr. Cherniack.

MR. CHERNIACK: Mr. Chairman, since we'll be seeing the sheet in due course, and we'll start trying to understand it, I wonder if the next time we meet — two things on my mind — the next time we meet, whether we could get from, I guess Mr. Craik could give it to us — in giving us the figures he's going to give us for each loan and the cost of take-over, whether we could also find out . . . a table showing Hydro's cost of borrowing . . . the interest rate cost of borrowing up to the date of April 1, 1979 on each of these loans, and the comparable cost that it would be if the Canadian rate that will apply to that loan had been charged from its inception. Would that be possible — I mean, I'm sure it's possible. Would he agree to that?

MR. CRAIK: I'll take it as notice. I don't fully comprehend exactly what Mr. Cherniack is asking for, but it's on Hansard.

MR. CHERNIACK: Okay.

MR. CRAIK: I'll show it to the accountants and I'm sure they can tell me whether it . . .

MR. CHERNIACK: Whether it is understandable or not.

Mr. Chairman, I don't know what the government is planning to do about the next meeting of this Public Accounts . . .

MR. CHAIRMAN: Utilities.

MR. CHERNIACK: Public Utilities, I'm sorry. I've spent so much time on Public Accounts, I'm confused . . . what the plans are, but I'm wondering if it suits the government's convenience to pass this report. I don't know if there's any objection to doing that.

MR. CHAIRMAN: I was going to say, Mr. Cherniack, that there is a bill — right, that will come to Committee referring to Hydro?

MR. CHERNIACK: Yes.

MR. CHAIRMAN: So, there is another opportunity.

MR. CHERNIACK: Mr. Chairman, I believe that Mr. Craik has given an undertaking that when we come deal with the bill that Mr. McKean might be available or would be available to enlarge or expand on. Then on that basis, I'm not sure that we haven't really completed this Committee's work and as I say, in any event, that from the standpoint of this report, I think it could be passed, although I'm not a member of the Committee, I'm saying that. The only thing is that if we don't understand the statement that Mr. McKean is having copied for us, then what will be the opportunity to get that information?

MR. CRAIK: On the bill, Mr. Chairman, we'll make as much available as possible on the bill itself.

MR. CHAIRMAN: Can we have the report passed?

MR. CHERNIACK: The question about the statement we haven't seen yet, if we have any questions on it, could it be possible that we could arrange to meet on that?

MR. CHAIRMAN: You're referring to the last statement that Mr. McKean was reading off of?

MR. CHERNIACK: And which he was referring to, which we . . .

MR. CHAIRMAN: Yes, all right. We'll ask the Clerk that he have copies distributed to all members of the Committee and you can get one from one of your colleagues, and then hopefully, we can pass the report, and then at the time of the bill, I think Mr. Craik will have Mr. McKean available.

MR. CHERNIACK: Well, if that's understood, then that's fine.

MR. CRAIK: I think that it's all intermeshed with the bill itself, and probably we can deal with what's being distributed now or any other information adequately at the time of dealing with the bill, because it's all on the same topic.

MR. CHERNIACK: Will the bill come out of the House?

MR. CRAIK: That, I don't know.

MR. CHERNIACK: No.

MR. CRAIK: It's a . . .

MR. CHERNIACK: Well, Mr. Chairman, I would rely on Mr. Craik's good faith to see to it that we have every opportunity to explore the ramifications, whether it it's in the House or out of the House.

MR. CHAIRMAN: All right. Mr. Minaker.

MR. MINAKER: Well, I'll move the report . . . I had one other question I wanted to ask, but I'll move that the annual report of the Manitoba Hydro be adopted. . . y.

MR. CHAIRMAN: Adopted in its entirety

MR. MINAKER: . . . in its entirety.

MR. CHAIRMAN: It has been so moved? All in favour? (Agreed)

MR. MINAKER: Mr. Chairman, I made mention that I would like to ask one question to get clarification if I could. It's of Mr. McKean — if I understand you correctly, Mr. McKean, through you, Mr. Chairman, then the assumption by Mr. Green in his proposition to the Committee, that without any changes we would end up with \$120 million reserve. Is that correct now?

MR. McKEAN: No, I'm agreeing really with the figures that Mr. Cherniack worked out. This statement shows actually \$28 million in '83 and you would correct it for the first year improvement, that \$17 million correction in the first year because we have better figures.

MR. MINAKER: So, that in actual fact, Mr. Chairman, we would end up with about a 45 million reserve?

MR. McKEAN: About a \$45 million reserve at the end of '83 based upon the calculation that Mr. Cherniack worked out and which I think I followed.

MR. CHAIRMAN: Just before Committee rises, Mr. Craik.

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MR. CHERNIACK: Mr. Chairman, please, if Mr. Craik will permit. Could Mr. McKean then update that statement, so that we really have a better comprehension? You know, the statement that Mr. McKean — that we have been talking about — we've been circulating it as of February. I'm sure it would be possible, would Mr. Craik agree that we should have an updating of that statement, according to . . .

MR. CRAIK: That's the second page?

MR. CHERNIACK: No, the first page.

MR. CRAIK: Yes, okay.

MR. CHERNIACK: You know, as of the first of something, like the first of June.

MR. CHAIRMAN: Mr. Craik, just before Committee rises.

MR. CRAIK: Mr. Chairman, just before we finish, I want to extend thanks to the staff of Hydro for coming out on a Saturday and, of course, the members of the Committee as well. We get used to it when speed-up is on, but not everybody does, and a particular thanks — it may be the last opportunity we have to see Dr. Wedepohl at the Committee. He has been a member of the board since 1974, and he has brought a great deal of dedication and experience and know-how to the board, and I want to say a personal thanks to him, and I know it's shared by the entire Legislative Committee.

MR. CHAIRMAN: Committee rise. Committee rise.

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MEMO REFERRED TO BY DR. WEDEPOHL

TO: Mr. John L. Burns

Interim Financial Projections

Please find attached a copy of a preliminary projection of Manitoba Hydro's operating results for the 5 fiscal years ending March 31, 1982 as requested by Mr. Craik earlier this week. Also attached for reference is a copy of the Integrated Financial Plan which was adopted by the Board of Manitoba Hydro in the fall of 1978.

The projection is based on an interim review of the effect of current conditions on the Integrated Financial Plan. The Board of Manitoba Hydro has not seen the projections and they have not been prepared using the same degree of effort and detail that is used in the development of the Integrated Financial Plan.

We have included on the projections a schedule indicating the effect on rates if Manitoba Hydro provided for a reserve addition of 10% of net interest expense and for expected foreign exchange losses on debt maturities. It is the line second from the bottom on the first page of the projections. You will note that it indicates a significant rate increase required April 1, 1979, a reduction April 1, 1981, an increase April 1, 1982 and a decrease April 1, 1983. The bottom line on that same page indicates the total reserves assuming those rate increases were implemented. It is recognized of course, that there is no possibility of an 18% rate increase on April 1, but this information is provided for comparative purposes.

On the second page of the projection, we have included a schedule showing the effect of 5%, 10% and 15% rate increases effective February 1, 1980. In each case, that is a one-time rate increase of the specified amount with no rate increases included in any of the years 1981, 82 or 83.

If one wishes to consider the reserves with no further rate increases through the period, that can be obtained from the third line from the bottom on the first page of the projection, starting from the reserves of \$50.4 million which existed April 1, 1978. Assuming no further rate increases reserves would be depleted by \$10.1 million to April 1, 1979, depleted a further \$30.4 million to April 1, 1980 at which time the total reserves would stand at approximately \$10 million. In 1981 there would be an addition to reserves of \$8.3 million, in 1982, an addition of \$7.5 million and in 1983, an addition of \$2.3 million.

In the consideration of any projections, the assumptions are of major significance and it is important that these be kept in mind when looking at the figures. The major assumptions are listed in the material attached to the Integrated Financial Plan and these have not been changed for the years 1980, 81, 82 and 83 with the exception that it has been assumed the Swiss franc issue 10C will have been redeemed in June of 1979 and replaced by a one year bank loan with interest at 2 1/2%. All items in the current year have been considered and adjusted as present conditions would indicate.

The most significant effect is the increase in return on extraprovincial sales.

The major concerns associated with future year projections are water conditions and the effect of foreign exchange rates. Work is commencing on the preparation of the Integrated Financial Plan for the fall of

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1979. During the process of that work, all of the assumptions will be reviewed but for the purposes of these projections the assumptions are as indicated in the existing financial plan, pages 3, 4 and 5.

If, after you and the Minister have had an opportunity to review this material, you would like any further explanation, I would be happy to meet with you or attempt to answer your questions whenever it is convenient.

"R. M. Fraser"

Att.

PROJECTED OPERATING STATEMENT (IN MILLIONS OF DOLLARS)
FOR THE YEARS ENDING MARCH 31, 1979 to 1983

	1979	1980	1981	1982	1983
<u>REVENUE</u>					
General Consumers - At Approved Rates	212.9	238.6	250.9	262.8	275.1
Winnipeg Hydro	21.2	29.9	26.8	23.9	25.3
Bulk Sales	9.9	9.8	9.9	17.1	17.8
Extraprovincial	78.4	72.8	110.1	107.5	102.2
Other	<u>2.4</u>	<u>2.5</u>	<u>2.5</u>	<u>2.5</u>	<u>2.5</u>
TOTAL REVENUE	<u>324.8</u>	<u>353.6</u>	<u>400.2</u>	<u>413.8</u>	<u>422.9</u>
<u>EXPENSE</u>					
Interest - Net	154.8	187.8	204.0	201.3	208.4
Depreciation	44.0	56.6	60.5	63.4	66.4
Wages and Salary	58.6	67.6	72.5	77.6	83.1
Other Admin. & Operating	30.2	35.6	37.1	39.3	41.7
Capitalized Overhead	(15.9)	(15.5)	(15.1)	(16.2)	(17.3)
T/L Lease Payments & Allowances	3.2	4.7	9.1	10.6	12.1
Water Rentals	4.8	4.1	4.2	4.4	4.4
Fuel	<u>3.4</u>	<u>7.3</u>	<u>8.1</u>	<u>8.9</u>	<u>9.4</u>
TOTAL EXPENSES	<u>283.1</u>	<u>348.2</u>	<u>380.4</u>	<u>389.3</u>	<u>408.2</u>
Excess of Revenue (Expense) before Amortization of Unrealized					
Loss or Gain on Foreign Exchange on Debt Maturities	41.7	5.4	19.8	24.5	14.7
Unrealized Loss or (Gain) on Foreign Debt Maturities	<u>51.8</u>	<u>35.8</u>	<u>11.5</u>	<u>17.0</u>	<u>12.4</u>
EXCESS OF REVENUE (EXPENSE)	<u>(10.1)</u>	<u>(30.4)</u>	<u>8.3</u>	<u>7.5</u>	<u>2.3</u>
<u>RESERVE PROVISIONS</u>					
Contingency and General Reserve	-	-	8.3	3.1	2.3
Transfer to (from) Rate Stabilization Reserve	<u>(10.1)</u>	<u>(30.4)</u>	<u>-</u>	<u>4.4</u>	<u>-</u>
Rate Increases required to provide for a 10% Interest Coverage and Realized Foreign Exchange Losses - Non Cumulative (%)		<u>18.2</u>	<u>(14.7)</u>	<u>8.6</u>	<u>(5.5)</u>
Total Reserves Assuming a 10% Interest Coverage and Realized Foreign Exchange Losses	<u>40.3</u>	<u>83.8</u>	<u>85.9</u>	<u>110.7</u>	<u>120.2</u>

CORPORATE ACCOUNTING & FINANCIAL PLANNING DEPARTMENT
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