

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

Chairperson
Mr. Daryl Reid
Constituency of Transcona

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MANITOBA LEGISLATIVE ASSEMBLY
Thirty-Ninth Legislature

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LEGISLATIVE ASSEMBLY OF MANITOBA
THE STANDING COMMITTEE ON CROWN CORPORATIONS

Monday, March 8, 2010

TIME – 6 p.m.

LOCATION – Winnipeg, Manitoba

CHAIRPERSON – Mr. Daryl Reid (Transcona)

VICE-CHAIRPERSON – Mr. Frank Whitehead (The Pas)

ATTENDANCE – 11 QUORUM – 6

Members of the Committee present:

Hon. Mses. Irvin-Ross, Wowchuk

Messrs. Borotsik, Caldwell, Cullen, Dewar, Graydon, McFadyen, Reid, Saran, Whitehead

APPEARING:

Hon. Jon Gerrard, MLA for River Heights

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

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

MATTERS UNDER CONSIDERATION:

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

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

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

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

Our first item of business is the election of a Vice-Chairperson. Are there any nominations?

Mr. Gregory Dewar (Selkirk): It's my pleasure to nominate Mr. Whitehead.

Mr. Chairperson: Mr. Whitehead has been nominated. Are there any further nominations? Seeing no further nominations, Mr. Whitehead is elected as Vice-Chairperson of this committee.

For your information, the Legislative Assembly Media Services will be on hand tonight to film part

of the proceedings for an inclusion in an upcoming video on the committees of the Manitoba Legislature.

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

Before we get started, are there any suggestions from committee members on how long we should sit this evening?

Mr.–uh–Borotsik?

Mr. Rick Borotsik (Brandon West): A little bit of a brain fart.

Mr. Chairperson: You changed and I didn't recognize you.

Mr. Borotsik: I'm just glad you didn't suggest it was Mr. Blaikie. Thank you for that one, Mr. Chairman.

I would suggest, Mr. Chairman, I believe that the original meeting was to be held for four hours. I would suggest we go to 10 o'clock.

Mr. Chairperson: It's been suggested to this committee that we sit until 10 p.m. this evening. Is there agreement for that? *[Agreed]* Thank you.

Are there any suggestions as to the order in which we should consider the reports as I previously mentioned?

Mr. Borotsik: I know the last time we were here at this committee we agreed that we could go globally, all three reports, '07, '08 and '09. We could deal with it in a global fashion. I know that the Chairperson and the CEO at that time agreed to a global discussion.

Mr. Chairperson: It's been suggested to the committee that we go on a global fashion for consideration of the reports. Is that agreed? *[Agreed]* Thank you.

Does the honourable minister responsible for Manitoba Hydro wish to make an opening statement, and, at the same time, would she please introduce her officials in attendance with us here this evening?

Hon. Rosann Wowchuk (Minister charged with the administration of The Manitoba Hydro Act):

Mr. Chairperson, I would introduce the staff here. All of you know Mr. Bob Brennan, who is the CEO and President of Manitoba Hydro; Mr. Vic Schroeder, who is the Chairman of the Board; and Miss Rhonda Orr, who is responsible for Government Relations.

And I—because Mr. Brennan has a presentation, I would defer my comments and go straight into the presentation.

Mr. Chairperson: I thank the honourable minister.

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

Mr. Borotsik: I will waive any opening statement. As I say, we've got a number of questions of the members today.

I do wonder if Mr. Brennan, the CEO, could keep his presentation relative and succinct—perhaps just new issues that have raised—that have been raised prior to the last meeting that we had. Perhaps a presentation of around 15 minutes or so if that was—if that could suffice. Thank you.

Mr. Chairperson: I thank the honourable critic for the official opposition.

Did members of the Manitoba Hydro wish to make an opening statement? Mr. Brennan, and you wish to start your presentation at that point as well?

Mr. Bob Brennan (President and Chief Executive Officer, Manitoba Hydro): Yes. Thank you very much, Mr. Chairperson.

We have a pretty short—even for me—a pretty short presentation. We're considering this to be an update to the November 17th meeting, which was an update to the June 1st meeting. So, we've had three meetings in short order here.

So what I propose to do is just highlight some of the things that I thought you might have an interest in and we'll just take it from there.

Mr. Chairperson: Is there leave of the committee to allow for the overhead slide presentation? *[Agreed]* Thank you.

* (18:10)

Mr. Brennan: There was some talk in the media about the rate increase we asked for. It was pretty well the same as in the greater financial forecast that we reviewed with you earlier. So we asked for

2.9 percent effective April 1st of 2010, followed by the same amount effective April 1st, 2011. Inasmuch as the rate increase, or the hearing itself, couldn't take place prior to the date we wanted the rate increase—April 1st is the time we always have our annual rate increases, should there be a rate increase—and so the Public Utilities Board granted us a 2.9 percent increase in—on all our customers except for street lighting and roadway lighting, and the actual hearing will commence in June or July of this year.

Okay, this is a graph that shows our rate increases compared to other utilities. There's two that have cumulative rate increases since 2006 that are lower than ours. One is Hydro Québec, which is 11.7, but having said that, they haven't announced their rate increase for the current year yet, and the other one is Newfoundland Power, which is at 7.2 percent, and they had a rate reduction in 2009, which accounted for that, but they had a 3.5 in the current year, which was higher than ours.

This is a graph that shows—it shows our annual debt equity as a result of the forecasted expenditures of the corporation, both operating and capital, includes all the revenue you get, including the addition of new generating facilities, and it reflects the contracts we've—in the process of negotiating with—or coming to a conclusion on with Xcel or NSB, Wisconsin and Minnesota Power.

As you can see, as we add the capital, it dips behind below our target of 25 percent equity and then the equity shoots right up after we—the contracts come into place for a few years, and you can see with the rated increases that we've been forecasting, we get to a position where we have 50 percent equity and 50 percent debt, pretty enviable position if it, in fact, happens.

These are natural gas rate increases. And, as you can see, these rate increases, for the most part, have been negative, and so actual decreases.

Next thing we have is the risk management allegations, and, as you all know, we've—as a result of us hiring KPMG we want to make sure KPMG's report is available to everybody, so we have asked the court to approve release of the assessment that will be done by KPMG.

You all have heard about the claim for \$10 million for gas and electric going back to 1999, which is past the statute of limitations, plus the City wants damages, interest and costs. The issue is the

application of City tax on—it's 2.5 percent on residential and 5 percent on commercial on GST that was imposed—Manitoba Hydro applied the tax the same way that the City did when they owned Winnipeg Hydro. We have discussed the issue with the Province and our recommendation to the Province is that they pass legislation to clarify this issue, I guess, rather than get into my views on it.

Bipole III: where we are in the whole process. We're just in the process of completing the third round of discussions and open houses and we're scheduled to be complete by the end of the month, and this is designed to provide all kinds of various groups' feedback to us on the preferred route. We'll take all that feedback and look at it and we'll identify the preferred route which should take place probably May or something like that and then we'll start the next round of consultations.

A little bit about our interconnections with Saskatchewan. We're—over the years have talked to Saskatchewan back and forth, but the government of Manitoba and the government of Saskatchewan had a joint committee meeting in Saskatchewan early in February. One of the items discussed was transmission capacity between the two provinces and the two governments committed to pursue options to expand trade and electricity between the two provinces. The premiers want a report from the two utilities when they meet again next year in Brandon, and certainly more transmission anywhere is certainly good for Manitoba Hydro.

We have a series of bioenergy programs. Manitoba Hydro has committed to a pretty aggressive bioenergy subsidy program and we've agreed to subsidize five different projects and the projects are all identified here, but, in addition to that, we applied to the federal government to get some help for these projects as well and they agreed to give us \$2.5 million. We are one of 19—our five projects are one of 19 from a field of 178 that were applied for.

We have a list of all the various programs that's going to hit the screen any minute. There they are. There's a series of them. Some are ones that we're looking at for a few years now as potential opportunities, but they include replacing heavy oil in the steam boiler-turbine at The Pas for Tolko. Another one is biomass gasification and the use of syngas in a reciprocating engine-driven generator at Hadashville. Another one is a waste heat generator at Spruce Products in Swan River, and the other two—

the next one is the use of biogas from dairy cow manure and the last one is a replacement for lignite coal with biomass.

I got a definition of torrefied and after reading it I still didn't understand what it was, that's all.

A little bit on—we have a First Nation Power Smart program that is designed to improve efficiency and reduce energy consumption in First Nation communities, both in terms of the commercial and residential sectors, and we're partnering with the communities to identify which homes would be best to implement the opportunities we can foresee.

The program itself includes Manitoba Hydro arranging for home audits, providing the building materials, providing training for their own people to do the actual work, and we're assisting them in obtaining funds from the federal government's ecoENERGY grant program. The First Nation provides the labour.

* (18:20)

A little bit about where we are with Wuskwatim. We expect to have the spillway completed this summer. The powerhouse is enclosed with cladding, and they'll work on it all this winter. The powerhouse crane installation and the final commissioning of the crane will be scheduled for early this year, in the first six months, and the in-service date for the first unit is late 2011.

Some of the employment statistics: We have 827 workers at the end of January, of which 223 are Aboriginal, and overall we've had—about 44 percent of the entire work force has been Aboriginal.

We're continuing our discussions with Pattern Energy for the St. Joseph wind farm.

And that concludes everything. Pretty good, eh?

Mr. Chairperson: Thank you, Mr. Brennan, for the presentation. The floor is now open for questions.

Mr. Hugh McFadyen (Leader of the Official Opposition): Thanks very much, Mr. Brennan, and appreciate the—your decision just to address the rate increase applications early in the comments, and it's one that's generating, obviously, a fair amount of discussion in the province and review by the PUB presently.

And I wonder if you can just indicate what's driving the request for rate increases presently at Hydro and if you can just expand on the factors that are driving that request.

Mr. Brennan: There's a series of—in the short term, we've been experiencing lower export prices as a result of the economy in the United States as well as low gas prices, and that's impacted us. We have increases in our costs, as certainly our wage bill is continuing to go up.

And some of the good things that is happening are, although we have a very large capital program, we're generating a fair amount of cash internally that allows us to have that paid for without borrowing. Our normal capital to maintain our system is covered by internally generated cash. So, for the most part, it's items on the operating statement that's causing our problems.

We also, of course, want to—we've finally got our debt-equity target to where we wanted it, and we'd like to do what we can to maintain it there.

Mr. McFadyen: When you talk about the internally generated cash, are you talking about domestic sales or are you talking about other activities internal to Hydro?

Mr. Brennan: Internally generated cash is our profits plus depreciation expense that doesn't require a cash outlay.

Mr. McFadyen: And so the internally generated cash is cash raised through power sales, then, is what you're referring to.

Mr. Brennan: Yes, it's recovering our—it is one of the items on our operating statement, as an expense that just doesn't require any cash outlay, and is covered by the revenue that the corporation receives both domestically as well as extraprovincially.

Mr. McFadyen: And just on the current rate application for 2010, I just note on the presentation that was just provided and distributed in hard copy, it makes reference to a 2.8 percent interim approval for 2010, and you had referred to 2.9 percent in your comments. Can you just explain what the discrepancy is there?

Mr. Brennan: Could you refer to what you have there?

Mr. McFadyen: It's just the utility rate changes slide that was presented. It says 2.8 for 2010 and I thought it was 2.9, but I'm just—okay. This is a typo on the presentation?

Mr. Brennan: I'll get that yet. I'm a very slow learner here.

That—what happened was the Public Utilities Board agreed to give us 2.9 with the exception of street lighting and roadway lighting.

Mr. McFadyen: I'm just looking at the recent history of rate increases Mr. Brennan has indicated in the chart, in the 2009 annual report. Over the last five years or so, since 2004, there's been roughly an increase, a cumulative increase, of about 13 percent over that five-year period to 2009, which roughly tracks CPI over that same period of time.

The rate increases that we're into presently, both the 2010 2.9 percent interim increase, and the proposed increase for 2011 of 2.9, are starting to move into a realm of exceeding both projected GDP and CPI. I wonder if you could indicate—and it seems to be validated by the chart indicating a slightly worsening position on debt-to-equity ratio. Could you just indicate what is causing Hydro to have to start to ask for increases in excess of projected CPI and GDP?

Mr. Brennan: I'd have to give you a complete analysis of that, but for the most part it's cost increases; cost increases related to just our increased operating cost related to additional customers. We're having a growth in customers, growth in domestic use, as well as the decrease that I was referring to in extraprovincial revenue as a result of lower unit prices on the market, which we expect to recover reasonably soon.

Mr. McFadyen: In earlier presentations and forecasts, the current significant downturn in export revenue was not forecast, and I'm just wondering how much confidence we should be placing in current forecasts about the recovery of those export revenues.

Mr. Brennan: I think a lot of people didn't recognize what was going to happen with the economy. I don't think Manitoba Hydro's the only one. It seems like the whole world did.

Mr. McFadyen: Yeah, I agree with that and I guess it begs the second part of the question. There's a projection for quite a significant rebound in export revenues going forward, in order to get the debt-to-equity ratio back to where it currently is, and I note from the presentation it's going to take 14 years before it gets back to the current position, even with optimistic projections. And I'm wondering, in light of the fact that we got it wrong in terms of the current circumstances, what makes you think we're getting it right in terms of future projections?

Mr. Brennan: I'm not sure anybody has a forecast that's right on, in anything, especially business. Having said that, I think ours are remarkably good. Now, certainly we underestimated a—or overestimated the amount of revenue we'd get from extraprovincial sales and certainly the economy changed dramatically for it.

I think, in my view, almost any estimate that can come up now as a result of the sales we have, and the plant we're building, is going to result in a deterioration in our equity, just because of the size of the plant we're adding, but the benefits of it lasts for the life of the plant, which is 100 years. So I think, based on my experience with Manitoba Hydro, that in this particular example it comes back remarkably quickly. I thought it'd be much worse than that, but it pops back because of the value we're getting from those sales.

Building hydro-electric plants, you know, as long as, you know, the costs can be maintained and that sort of thing is definitely good for everyone.

Mr. McFadyen: The projection that you've presented today shows that it'll be 14 years by the time Hydro is back to its current debt-equity ratio. In other words, a slight worsening of the position for the next 14 years and then, 14 years from now, a projection that will recover and the position will start to improve.

* (18:30)

I guess the concern we have is that the further out you get in terms of projection the less certainty there is, and so we look at fairly certain worsening projections for the next 14 years, and, I guess, looking for some degree of comfort that your forecast about the performance of the U.S. economy 14 years from now, which is what is going to drive this, are—have some reality to them, and I'm wondering if you can just outline what models you're using to project that U.S. demand is going to recover, and the prices are going to come up to levels where the current expenditures are going to be justified.

Mr. Brennan: This is not based on our forecasts of use. This is based on the contracts that we're in the process of documenting with the American utilities that will have fixed prices in them. So it won't be based on forecast of use. It's based upon the agreed prices we had in term sheets.

Mr. McFadyen: And, you know, it's important, significant, you're using the word "will be" because

the contracts have not yet been finalized in terms of pricing. Is that right?

Mr. Brennan: That is correct, but if we do—if we don't get the contracts then we won't build a plant. So you don't have the cost and you don't have the revenue either.

Mr. McFadyen: Are you able to provide any sense as to the timetable for settling prices and arriving at agreements?

Mr. Brennan: Yes. We're hopeful of getting them within six months to a year and having it all fixed.

Mr. McFadyen: And has the 40 percent drop in market prices in the midwestern U.S. over the last 12 months had any impact on those negotiations?

Mr. Brennan: They don't appear to have at this point.

Mr. McFadyen: I just want to—we're going to come back to the issue of rates and forecasts, but I've got a few questions on the bipole project, probably not surprisingly to anybody, and I just want to ask the minister, given that this was a—it was a direction from the former Hydro minister to the board of Manitoba Hydro to rule out the possibility of the east-side route, a letter from Mr. Selinger to the board of Hydro in 2007.

If she could again just walk through the—given the massive cost discrepancy and the other reliability issues that the engineers have raised—walk through the rationale again for restricting Hydro's options in that way.

Ms. Wowchuk: This has—this is a discussion that has taken—it took place some time ago and, indeed, there was a lot of work done on the east side of the province. Many meetings were held and, after having those meetings and not being able to come to agreement on putting the line on the east side, and other issues that arose that signalled that there would be difficulty getting the line going on the east side, it was recognized that we did need to build the line for reliability of supply for Manitoba customers and to meet the needs of our exports, and government looked at—had discussions. Hydro did consultations. There was a lot of meetings, and the decision that was made that we had to move forward because we had to have the line done by 2017 in order to—in fact, the line could have been done earlier than that to meet our needs, and we had to move forward and the decision was made that there was this, even though it would be a longer line that it would be—make sense

to move forward and build the line on the west side of the province so that we could get our reliability of supply and meet our needs, have the line there to meet our customer needs and that's the process that went through.

And the, as I said, the decision was made in—I believe it was in 2007 and, if I am correct, it was made at that time, and then the process began to select the route so that we could indeed get a line built, and now we are in the third round—Hydro has done the third rounds of consultation and, as Mr. Brennan has said, very soon there will be a site selection. The final route will be selected and then we can proceed with that line.

Mr. McFadyen: So you've said that the main reason for not going on the east side was that there was no consensus of east-side communities to support an east-side route. Is there a consensus of everybody impacted by the west-side route that that's the way to go?

Ms. Wowchuk: Well, I said that there was a lot of discussion. There were, I believe, some 80 meetings held on the east side. There was discussion about a UNESCO Heritage Park and the risks of—to the UNESCO park, but the people on the east side said that they wanted economic—they wanted the opportunity for economic development rather than just having a line go through that would only offer a couple of years of brush cutting and no long-term jobs.

There was also the concern that licensing, getting a licence for the east side through the boreal forest, could meet with resistance and it would mean—and it could have an impact on sales, our sales into Wisconsin and Minnesota, and there would be longer delays. And it would mean that we were putting at risk the sale that had been negotiated, and we had to move forward and that was the reason for making that decision.

Mr. McFadyen: Is there any documentation or study that suggests that any side route would put sales in jeopardy? Are any of the prospective customers on the record saying that they oppose an east-side transmission corridor? Prospective customers—the issue if you're—

Ms. Wowchuk: There is a report. It's called the Farlinger report, and in that report there is an indication that this could become a problem.

Mr. McFadyen: We're familiar with the report that the minister's referring to, and the report actually

highlights problems and issues with the west-side route in considerable detail. At one point, the report says that the west-side routing will cross not only boreal shield but also boreal plains, ecozones from roughly Ponton to Red Deer Lake. This latter ecozone is considered to be highly impacted and at greater risk. According to Global Forest Watch, less than 15 percent remains in large, intact areas. This includes the same ecozone that was identified for protection as part of the proposed Manitoba Lowlands National Park. Although there are potential routing options through this ecozone that could parallel existing developments, an argument could be made that this region has greater urgency for protection of ecological integrity than the vaster boreal shield forest of the east side. However, this forest does not have the same profile and emotional appeal as the east side, and that was the conclusion of that report.

I'm just wondering if you took into account the very significant concerns about the west-side forest that were raised in the Farlinger report.

Ms. Wowchuk: Mr. Chairman, whenever a government makes decisions, they take into consider all things and certainly the Farlinger report was considered.

We did—the member talks about the west side, about having a similar landscape but you also have to recognize that the west side is more developed. On the east side, there are areas that are undeveloped as far as the forest goes and we—there is also a study that shows that the boreal forest on the east side of Manitoba is one of the most unique sites in the world, where there is a large, intact forest, that is one of a kind in the world, of its size, and all of those things are taken into consideration and were taken into consideration when the decision was made to proceed to put the line on the west side. And that's when the—Manitoba Hydro began their consultations and looking at which routes could be looked at in order to build a line.

Mr. McFadyen: Just coming back, we've heard about the meetings that took place in the east side and were advised by the communities on the east side that Hydro was one of many issues that were—that was discussed in the course of those consultations, and that the process for consulting west-side residents is now just under way. Mr. Brennan has highlighted some of the public consultations undertaken by Hydro.

* (18:40)

Why wouldn't you wait to see what the reaction was to the west-side route before forcing that option on Hydro, given that there are some 600 kilometres of boreal forest? There are significant issues in terms of farmland and agriculture. There's a transitional forest on that side of the province, and there are significant issues that arise with respect to valleys, wetlands, the Parklands region, Duck Mountain Provincial Park and forest, the Red River Valley and a range of other issues. We're curious as to—when you make a decision to spend an extra \$640 million and you are building a line that's less reliable and has less capacity than the east-side route, why this significant reaction to concerns about the east side but apparent—no apparent concern about the very significant issues raised by Mr. Farlinger and others about the various impacts on the west side?

Ms. Wowchuk: Mr. Farlinger did raise concerns with the east side.

Now, I believe the member said, why didn't you wait until you got the information on the west side before you made a decision. Well, we—there is no luxury of waiting.

You cannot spend—you have—the governments have to make decisions. A government made a decision that we weren't going to go on the east side because of the issues that I outlined and that we made—then we made the decision on the west—to go on the west side because we had to build—have to build a line for reliability of supply and to meet—be built in time to meet the needs of our customers and you cannot—decisions have to be made. And a decision was made and engineers and consultants have been hired. They're working with the people.

But I will say, there is a difference between the east side and the west side in the fact that on the east side it's not developed. It's pristine forest that's being set aside for—and hopefully we will get a World Heritage UNESCO site which will result in employment and tourism and economic development on the east side of the province. And the west side of the province will—has got development and the forest—there is—it's not the same kind of pristine, undeveloped forest on the west side of the province as there is on the east side of the province.

Mr. McFadyen: Well, the issue is not wanting to delay through further consultations. It's already on the record that the west-side decision has already cost two years in the completion date for the project. But the issue is how carefully you were listening to what east-side communities were saying. Fifteen out

of the 16 east-side communities are on the record, or have been on the record, at one time or another, supporting the east-side corridor. And so I'm wondering if you can explain how it is that you can make the decision to avoid the east side when only one of 16 communities on that side has formally gone on the record expressing absolute opposition to the project, and each of the other 15, to various degrees, have expressed support for it?

Ms. Wowchuk: Mr. Chairman, the decision to go on the west side versus the east side was not taken lightly. There was a lot of work. There was some 80 meetings of consultation that were held with people on the east side and there was a recognition by communities on the east side that they wanted more than a hydro line. They wanted the opportunity for economic development and more jobs and there is more than one community that is now supporting the UNESCO Heritage Site.

Mr. McFadyen: And, actually, what the minister is saying, I think, is in support of our position. We've read the same reports and had the same feedback that the east-side communities do want more than a hydro line. They want a road which is being built through the very forest that you are referring to and a variety of other opportunities. Those communities had indicated that no proposal was ever put before them, no specific proposal with respect to an east-side corridor.

I wonder how you can expect reaction from communities on an issue as significant as this when no proposal was actually tabled and when—what they are in fact saying is that they would welcome an east-side transmission line along with other development.

Ms. Wowchuk: You know, you can say that nobody was interested in discussing—there was no proposals. I can assure the member that there was a lot of discussion, as I indicated. There were over 80 meetings that were held in that area and there was—people did want more than a hydro line put into their area. They wanted, and there are supportive of development of tourism in the area and that is where—how the decision was made. It was made because the people on the east side had—in their discussions—had indicated that this was not what they wanted and we proceeded, because, although the member thinks that you can wait much longer and have a lot more further discussion and delay the building of the hydro line, in reality, we have to move on this issue. The line has to be built so that we

can meet our commitments for reliability for Manitobans and increase need of power in Manitoba, but, also, as Mr. Brennan has referred to, to the sales that are being developed for Wisconsin.

Mr. McFadyen: The minister continues to assert that I've made a statement to the effect that we want the line delayed. What we have said is we wanted it completed by 2015—which is ahead of the 2017 schedule—that the delay has been caused by the decision to go west versus east, and so I just ask the minister to stop repeating what is a blatant falsehood about our position on the timelines for the completion of the line. And, further, the minister has said that the communities wanted more than a hydro line, which is not the same thing as saying that they're opposed to a hydro line, and so to spend an additional \$640 million based on feedback that was never provided in response to a map with a route with a financial proposal, it seems like a flimsy basis for delaying a project by two years, overspending by \$640 million and moving a line through territory that has quite significant environmental issues, and so I probably flogged this—probably flogged that point sufficiently for tonight.

I just want to ask the minister if she can comment on the status of discussions with First Nations communities in the vicinity of the west side options. I believe that there's roughly a dozen communities that would be in the vicinity of that route.

Ms. Wowchuk: Well, I just want to—the member has taken offence to something that I said about how he would delay the line, but I remember clearly the member saying that, after the election in 2011, he would shut down what was going on, the west side of the line, and change it to the east side of the province and have it built—first of all, he said he would—under his proposal, it would be built by 2020. Then he said, no, I changed my mind, we can have it done by 2017, and then he said, we could get it done by 2016. Those were his numbers. I recall, very clearly, him saying that in the media. But, you cannot shut down what is going down on the west side of the province now in 2011 and reverse all of that, all the work that has been done, and then say that you're going to have a line built by 2016 or 2017. That's not realistic and it's wrong to try to say to people that you can shut everything down and reverse it all in 2011. There's far too much work that has been done and there is—we have to proceed.

With regard to the people on the west side, my understanding is that Hydro has now done three rounds of consultation. They've talked to people in the various communities, and, when the final route is selected, then there will be more detailed discussions. But I would ask Mr. Brennan to add to that as well.

Mr. Brennan: We've consulted with some communities. Some communities have found that the timing that we wanted to talk to them was not right. But, for the most part, we've initiated contact with them all.

Mr. McFadyen: The minister has said that I made comments in favour of a 2020 completion. If she could table that media report I'd like to address that issue because we certainly have never been in support of any delay.

But, moving on from that, one of the environmental impacts that's been quite properly discussed in the context of this debate is impact on woodland caribou and woodland caribou ranges, and I'll just table a copy of the government's 2005 report, Manitoba's conservation and recovery strategy for boreal woodland caribou, and—I'll just wait for the minister to get a copy of the map.

* (18:50)

Okay. Just—the map that the—that her own government has produced shows that there are eight woodland caribou ranges on the west side of the province and two on the east side. I wonder if she can indicate what analysis has been done on those eight woodland caribou ranges on the west side versus the analysis done for those on the east side, of which only one appears to be within the range contemplated by an east-side route.

Ms. Wowchuk: I will refer to the Farlinger report that I referred to earlier, and on page 12 of the Farlinger report it says, and I quote: The west side presents the best option for woodland caribou in Manitoba. It would not need to fragment additional caribou ranges and would leave a large contiguous block of caribou habitat on the east side of Lake Winnipeg. Widening an existing transmission line corridor would reduce impacts related to creating a new corridor. So I—that was Mr. Farlinger's comments on the woodland caribou.

Mr. McFadyen: The map that the Department of Conservation put out seems to contradict that statement. It's a government-sanctioned description

of the ranges and there are—the existing maps that have been put out by Hydro show proposed corridors fragmenting two and possibly three of those existing ranges: Nos. 8, 6 and 7, the Reed Range, The Bog and the Wapisu. I wonder if the ministers could table any studies or reports that have been done specifically on the impact on those ranges in the event that the line does follow the west-side route.

Ms. Wowchuk: If I could come back with that information, I'll certainly provide the member with it. But I will again refer to the Farlinger report, and what Mr. Farlinger found in his studies, and this is a report that has looked very closely at what impacts would be and I would—if Hydro would have further information, I would ask Mr. Brennan to add to the studies on caribou patterns.

Mr. Brennan: We have a consultant who's looking at that issue now and we're doing various studies associated with it. Our goal, of course, is to assist caribou, not to—not harm them in any way. So the studies that are going on will be reflected in our impact statement when we file it. But at this point, I think there's a lot of things Manitoba Hydro does in terms of impacting other people, and the goal of Manitoba Hydro is to mitigate that wherever we can, and if we can improve the situation, we should, and we're trying to do the same thing with caribou.

Mr. McFadyen: Just further on the environmental impacts. The—one of the things that I think we're all—that Manitobans are proud of with respect to Hydro as a clean source of energy is the ability to export that power for the purpose of allowing other jurisdictions to lessen their reliance on coal-fired electricity generation. And on the issue of line loss, which we've already gotten into fairly extensively over the past 18 months or so, there are estimates of rough line loss on the west side of about 40 megawatts.

I want to just ask the minister: In terms of Hydro's reputation as a clean energy provider, why would you want to allow 40 megawatts of clean energy to be wasted on a longer transmission corridor when that energy, clean energy, could be used to offset the amount of coal-generated electricity south of the border?

Ms. Wowchuk: As I understand it, with the efficiency of the lines that are being built—that will be built, in comparison to the lines that already exist, there will be—they're much more efficient and there will not be the amount of loss that we are seeing through the main lines that are coming out of the

north right now, and so there will be—there will not be the significant amount of loss that the member refers to. But again, I'll let Mr. Brennan respond further to that.

Mr. Brennan: In both cases, of course, we'll have a reduction in line losses and there—the 40 megawatts you have mentioned is the difference between the two. But with either line, there'll be a reduction in the losses.

Mr. McFadyen: And that's based on being able to spread the transmission among—over three lines versus two. Over the longer term as exports increase, what impact does that have on the line-loss projections?

Mr. Brennan: They will—the losses will get greater as more power goes on them.

Mr. McFadyen: And so, again, to the minister, if you've got two options, one of which conserves 40 megawatts of clean energy and the other of which wastes 40 megawatts of clean energy, what is the policy rationale for choosing the option that wastes 40 megawatts of clean energy?

Ms. Wowchuk: Mr. Chairman, the goal here is to build a line that will meet the needs and secure reliability for Manitobans, and meet the needs and be able to have a line in place to export power, and to get \$20 billion in sales in revenue for the Province of Manitoba over 20 years. And, if you are going to look at a line that may not—that may meet further challenges or may meet resistance in when you go to build it, you have to make those choices, and our choice is to fulfil our commitment to be able to sell power and to generate revenue for Manitobans. And that's why we made the decision to move forward rather than to put at risk our sales. Power is a very important revenue for this Province and we have to move forward on it and, on one hand, the member opposite can say that we are going to be losing power, and I say if we don't build we could be losing sales and revenue for Manitoba.

Mr. McFadyen: Well, you know, I don't disagree with that. We're all in favour of building it. The issue is why would you choose, when you've got two options, one of which wastes 40 megawatts of clean energy and one of which conserves it to reduce coal operation south of the border, why would you choose the dirtier option?

Ms. Wowchuk: Our government made a choice to build the line so that we could sell power, not choose an option that might be delayed to the extent where

we would lose the sale and not remove any coal operations in the United States. It had—there had to be a decision made. We made a decision that we would proceed on the west line—west side so that we could have the lines in place so that we could meet those sales that are out there and generate revenue in the range of \$20 billion over 20 years for Manitobans.

Mr. McFadyen: The minister has referred to the Farlinger report as providing the rationale for the conclusion that the NDP have reached that power sales could be put in jeopardy. That report outlines concerns of both east and west in terms of risks and potential issues that would need to be dealt with.

Are there any other—could you just name some of the people who have told you that sales will be in jeopardy if you went down the east side?

Ms. Wowchuk: I think I indicated at one time to the member that there were a significant number of people who had sent letters, had—they indicated their concern. There were groups of people who had said that, and there are First Nations groups and there are environmental groups that have talked about the east side that would then oppose the line and could put the line at risk. If the member is asking me for individual names, I don't have individual names here to provide this evening.

I can say that Farlinger says that if an east-side route location develops into a confrontation, First Nations and environmental groups versus Hydro, it will draw in national and, likely, international environment groups. This creates a risk to the Province's reputation, and so it is right in Farlinger's report that there could be—and there are environmental groups who have—and First Nations groups—who are concerned about the—that we're concerned about the east side and could have—could have, I say, delayed the process, have delayed the licensing which would have resulted in not—us not being able to be able to meet our requirements.

* (19:00)

And there are—another quote that I have here, and I'll quote you, Mr. Brennan, if you will allow me. On October 22nd, 2007: We have environmental groups approaching Manitoba Hydro with all kinds of concerns and any kind of major disruption, people opposing it, it's going to have an impact on the market we sell power to and that's something we have to be concerned about.

Mr. McFadyen: Thank you, Minister, and we don't disagree with needing to take all those things into account. The issue is you're going to have issues on east and west in terms of opponents, and I wonder for all of the weight that's been attached to the east-side opponent, and for over a year we've been asking for names of those people who are opposed, and every time we ask the question we get the same response: We don't have any names with us tonight, but we'll look into it.

For a decision of this magnitude, it's frustrating to us, and maybe you can appreciate why we'd be frustrated when we continue to ask for names of the opponents and, yet, more than a year into the debate not a single name has been provided.

But, on the same basis, is the minister satisfied that there'll be no opponents to the west-side route and, if so, what's the basis for that—arriving at that conclusion?

Ms. Wowchuk: Mr. Chairman, anytime you do a project that requires an environmental licence, there are people that have the opportunity to raise their views on it, to state their case either for or against it, and I do not believe that Bipole III or hydro dams are any different than others when that application is made for an environmental licence.

People will have the opportunity, and there's no doubt that there will be some that will be opposed to it and there will—some be in favour of the line on either side of the province.

Mr. Victor Schroeder (Chairman, Manitoba Hydro-Electric Board): Some of the names that were pretty active about six or seven years ago with the Natural Resources Defense Council, they were talking in terms of selling memberships based on defending what they called the heart of the boreal forest. There was the Sierra Club. There were something like 35,000 letters to the government, many of them coming to Hydro as well. There were certainly individuals. So—and NRDC is probably the best-funded organization that could create difficulty in terms of legal opposition to licensing and that's a group one ought to take quite seriously.

At that time, we, also—Manitoba Hydro, Mr. Brennan, myself and members of the government—met with the east-side Chiefs here in the Legislature. We had gone through a lengthy presentation showing roughly where the routes might be on the east and the west, and it was quite clear from the presentation that we were—that the cost

would be less down the east side. We were encouraging discussion. We came back with nothing; that is, there was not a single positive response from the east side at that time.

And, lastly, it's not the utilities that will ultimately make the decision on the purchase of our energy in the south. It's the people who define our energy as being green or not, and those people are also influenced by people like NRDC. I think that has to also be taken into account in determining the decision, and, as Mr. Farlinger said, that decision was properly one of government, not of the utility. And I'm pleased that government made that decision.

Mr. McFadyen: I appreciate that response, Mr. Schroeder, and we agree that you have an obligation and a responsibility to take into account the possible or probable reaction of those organizations that would—that might intervene in a situation like this. And I just want to, I guess, note that the Natural Resources Defense Council is the same group that's currently opposing wind power projects on Cape Cod. But that aside, have any of these groups signed up as interveners in the environmental process for the licensing of the east-side road that's going to go through that boreal forest, and if so, what position have they taken?

Ms. Wowchuk: Mr. Chairman, there is a recognition and there was a recognition and a request from the people of the east-side road that—east side of the province—that they wanted a road built so they could have access. And we have begun the process and certainly the road is being built in a way that gives the opportunity for economic development and jobs in the area.

These roads, I believe, are being built in places where there are trails now and it will help people to have—help for those communities where there is just—they're winter roads reliable. So, no. To my knowledge there has not been objection to—by these people to have roads built into communities that have been waiting for and have been wanting, for a long time, to have roads.

Mr. McFadyen: So I'm just trying to understand. If—why would those organizations, or what grounds would they have for opposing the impact of a transmission line but not to be opposed to a road, in terms of its impact on the forest?

And if you can just comment in the context of the fact that there are already existing transmission corridors in the eastern forest for smaller scale

transmission lines. What would the—why would those groups support a road through the boreal—the pristine boreal forest, which already has transmission corridors, but not oppose a road? Why would they oppose a transmission corridor but not a road? If you can just walk us through that.

Ms. Wowchuk: I guess you would have to ask them why they would oppose one—but I can—I want to indicate to the member that putting a line through an area for a transmission line is a lot different than putting a road in and—but I cannot speak for the NRCA as to their position but I recognize and I—what they are looking for. They want—there is a lot of support for the UNESCO site and there is—there are, with regard to the roads, there are winter roads into these areas already but it only gives people access part of the year.

Our climates are changing. Winter roads aren't lasting as long and being able to have permanent roads into these areas for economic development and for safety and for tourism is a very different thing than having a hydro line go in that has no access to it, just the hydro line. That is quite a difference. And building and upgrading winter roads to permanent roads is also quite different than putting in a one-time hydro line.

Mr. McFadyen: Can I—just on the issue of the discussions with the east-side communities, because I know there's some, initially some expressions of resistance to the idea of a power line. We don't doubt that that was expressed six or seven years ago, when the original round of discussions were taking place, but subsequent to that, 15 out of the 16 communities have indicated, to one degree or another, support for the idea and a willingness to discuss the impact of the line on the forest, ways to mitigate that impact, and ways that communities on the east side might benefit in some way—and it might be modest—but benefit in some way from those lines.

I wonder, in light of the fact that there appears to be a shift in their position from six or seven years ago, why the Province and Hydro wouldn't jump on that as an opportunity to work something out with those communities that might produce a win-win for the east-side communities as well as the rest of the people of Manitoba.

* (19:10)

Mr. Schroeder: At this point it would strike me that it would be the wrong decision. We know that we couldn't get the east side developed, just assuming

every single penny dropped in the right slot, before 2020.

So we're talking now a three-year delay as a result of that. That's assuming we don't have NRDC come in and create some court delay, or some other organization. That is a danger on the east side, and I think it's important that we get the line built, and it seems to me that a three-year delay is something that's not in the interests of our ratepayers or the interests of the taxpayer.

Mr. McFadyen: It's just that the process of having these same discussions with west-side communities is just under way now, some six or seven years after the discussion took place—started on the east side. So given that the dialogue with the east-side communities is so much further advanced relative to west-side communities, how can you argue that going west side actually saves time when you're in—relatively speaking—very early days of consultation and discussion with west-side communities compared to where the dialogue has been with east-side communities?

I don't understand how you can talk in terms of time savings when the consultation process with west-side—including a lot of Treaty 1 communities in the southern part of Manitoba—the Southern Chiefs Organization has indicated that they haven't received any proposal or consultation. So here we are in March of 2010 and a significant number of the players that would be impacted by the west-side quarter have yet to even receive a presentation or a proposal.

How do you make the case that you're saving time when you're so far behind on the west side versus where the discussions have gone on the east side?

Mr. Schroeder: Well, the 2020 date is the one that Hydro has given us internally. It's not one that the board dreamt up.

In terms of where we were when we broke off on the east side, we didn't have the kinds of formal discussion yet that we've had three rounds of on the west side. We would be just going back to square one practically. Certainly there was an introduction at the community level, but in terms of the actual timing of completion, if we were to turn around and stop now—and that's again assuming every penny drops in the right slot—I would turn that over to Mr. Brennan.

Mr. Brennan: The advice I'm given is if a decision was made in 2011 to—we could get the line in based on a 2011 decision—we could get the line in in 2019 and the converter station, 2020.

Mr. McFadyen: Just on the budget—projected budget for the Bipole III project, the last public numbers that we received were that the estimate was about 2.2 billion inclusive of converter stations. Has there been any—in the context of preparing for the submissions to the PUB, has there been any revision to the budget forecast for Bipole III?

Mr. Brennan: Nothing at this point. The IFF I believe still has that number.

Mr. McFadyen: Are you anticipating any changes to the budget projection?

Mr. Brennan: At this point I'm not sure because at one point we were concerned about construction cost increases and they've certainly gone the other way now, so we're just—I'm not sure.

Mr. McFadyen: Is there an estimate currently for land acquisition costs in terms of the private and agricultural land on the west side that is—we've been advised by your officials that that's separate from the 2.2 billion. Have you got an estimate of the land acquisition costs that are projected currently?

Mr. Brennan: No, I do not.

Mr. McFadyen: In terms of other impacts, we're also advised that there's no intention to run any lines diagonally through agricultural land, that everything will go in accordance with north, south, east, west directions. Is that your—is that still the plan of Hydro, in terms of the way the corridor would be routed?

Mr. Brennan: Our plan is to—yes, our plan is to impact people as little as we have to.

Mr. McFadyen: And there's also a commitment to avoid any private residence, or not come within 600 metres, I believe, of a private residence. Is that still the position of Hydro in the context of this project?

Mr. Brennan: Yes.

Mr. McFadyen: And are you certain that it's logistically possible to run a corridor down the proposed routes without coming within 600 metres of a private residence?

Mr. Brennan: I don't think I'd be prepared to swear on that. I'm certainly not close to it at all in terms of that, but presumably, hopefully, we can.

Mr. McFadyen: The—in terms of the plan to cut through the Red River Valley south of Winnipeg, what advice have the engineers provided in terms of the advisability of running a major transmission line through a region that floods on a regular basis?

Mr. Brennan: We have considered that, and we have a lot of transmission lines going down through the flood area now, and we don't see that as being a major difficulty for us.

Mr. McFadyen: Do you have any DC bipole lines that go through that region currently?

Mr. Brennan: No. We do have high-voltage lines going down, though; AC.

An Honourable Member: Right. Okay.

Mr. Cliff Cullen (Turtle Mountain): I appreciate the opportunity to ask some questions of our colleagues from Manitoba Hydro.

I'm glad to see that you did bring up the issue of risk management. Obviously, that's a key component of what Manitoba Hydro does, and clearly that risk management has a bearing on the rates, as we talked about earlier.

And we've had quite of bit of discussion about consultants tonight. I know we spend a lot of money on consultants, and I'm just wondering if—what kind of money you budget on an annual basis for consultants in terms of risk management?

Mr. Brennan: I'd have to get that for you. I don't have a clue. There's different kinds of risk management issues.

If it's one related to a project, we'd hire consultants to help us with that, and it'd be charged to the project, so I think it'd be really, really hard to find. You know, like if you have a particular project and you're concerned about the existing concrete or something and you would get somebody to analyse that. I think there's a lot of engineering risks that are assisted by consultants and that sort of thing.

In terms of the corporate risk management, well, we could easily do that for you.

Mr. Cullen: Well, I'd appreciate that, if you could ascertain that for us.

Last time we met back in November, we had quite a discussion about KPMG, were looking at doing a study or some valuation on some risk management over at Manitoba Hydro. I just wonder if you could update the status of that particular

report, where KPMG are in that, if you've signed a contract with them and what the status of that particular report is.

* (19:20)

Mr. Brennan: The board of Manitoba Hydro, through the audit committee of the board, as well as management, agreed that we would hire an external consultant to look at some of the allegations that were being made against Manitoba Hydro, and certainly, you know, Manitoba Hydro had wanted to make sure that whatever was there, we're comfortable with what we're doing. So we hired a series of consultants, ICF before KPMG, but although we had confidence in what we were doing, we thought that there's a need to make sure that these allegations were looked at in a great deal of detail.

So, we entered into an agreement with KPMG that they would look at our risk-management practices as it related to operating our system, and that's under way. We expect to get a report by the end of March.

Mr. Cullen: Why did you choose KPMG to undertake this particular study?

Mr. Brennan: We looked at various consultants and we thought that, overall, they had the capability to do it and to do it well.

Mr. Cullen: So there's—in this particular case, there was no tendering process undertaken?

Mr. Brennan: No, we didn't have—we didn't ask for proposals for it. I think that in some degree, time was of the essence, as well, from our perspective.

Mr. Cullen: What's your normal protocol in terms of hiring consultants?

Mr. Brennan: Ordinarily we ask for proposals. Is that what you mean?

Mr. Cullen: Yes, like, would you normally go through a normal tender process as many other companies would?

Mr. Brennan: Yes, normally we ask for proposals.

Mr. Cullen: So the reason, then, you selected KPMG—are they doing ongoing work for you, or why, specifically, was the reason for picking KPMG?

Mr. Brennan: They were doing some work for us in the area of international financial reporting issues, but for the most part, they haven't done a lot of work with us. We have, over the years, some time ago, had

experience with them. But we do know them. We do know all major CA firms, and certainly we thought, certainly, KPMG, when we talked to them, thought they had the capability. We looked at it and we agreed that we thought they had the capability to do a good job for us.

Mr. Cullen: Well, thank you very much for that.

What type of a cost do you have budgeted for this particular—for the scope of this budget, and what kind of budget do you have laid out for KPMG under this terms of reference that you've agreed to?

Mr. Brennan: We didn't go through the budgeting process with them. We hired them and it was going to be, you know, based on the amount of time they spent, they're going to bill us for it. We could see—well, first of all, we couldn't determine actually the scope of the work. That would be difficult at this point. We agreed to rates for certain individuals, and with the expertise they had, we reviewed—we knew it was going to be a good-size review and, overall, we thought that would be the best way to do it.

Mr. Cullen: So just to be clear, you've entered into an open-ended contract with KPMG.

Mr. Brennan: I don't think I'd say it that way.

Mr. Cullen: I'm sorry, I didn't hear Mr. Brennan's answer.

Mr. Brennan: I don't think I would say it that way. What we agreed on the task that had to be done, we knew that it was going to take a fair amount of work, and we thought that, at the time, we'd look at it as it went, and that's what we're doing, and the project will be finished by the end of this month.

We continue to get progress reports both for management and the board. The group actually reports to the audit committee of the board, not management, but—

Mr. Cullen: Would you be prepared to discuss a little more specifically what the scope of this particular report is looking at?

Mr. Brennan: I would probably be best to get something documented for you. The scope was to look at all risks associated with the management of our export system and our water regimes, and how we operated our system generally. I'm saying this quite loosely, but it—we do have it documented and we could provide you with that.

Mr. Cullen: I certainly would appreciate that if you could pass it along, Mr. Brennan.

You made a reference to some of the allegations a consultant had made. Is there, those specific allegations made by the consultant, are those going to be reported on in this particular report?

Mr. Brennan: No. We asked for the consultant to look at our operations to see if there's any risks that we haven't identified. I think that'd be a better way to say it, but it was as a result of the—excuse me—it was as a result of the allegations that both management and the board were very concerned about.

Mr. Cullen: Mr. Brennan, could you explain to me, then, the difference in the context in terms of the scope of the report that KPMG is undertaking and the scope of the report that ICF just recently completed? What are the difference in those two reports?

Mr. Brennan: One is way broader. One we asked for ICF to look at certain specific issues. We left it much more open for KPMG. It was much broader and it was any kind of a—instead of divining—defining the actual issues that we wanted ICF to look at, we just left it quite a bit looser for them.

Mr. Cullen: The slide you had up earlier today made a reference to the court application. You know, when we met last November there was no indication of any court application going forward. Could you explain to us why Manitoba Hydro has undertaken this court application?

Mr. Brennan: It'd probably be better to get the lawyer to my right to talk to the issue.

Having said that, we do—there's a lot of concern with so-called secrecy associated with what reports could be released and not released, and we want to make sure that the KPMG report is available to everybody, and we wanted a court order to say that.

Mr. Schroeder: Yes. Manitoba Hydro received what was called a cease-and-desist letter saying that we were not to review certain issues and we also came to the conclusion that we ought to ensure that the process took place here in Manitoba as opposed to elsewhere.

Mr. Cullen: Could you explain your undertakings through this court process? What exactly is it that Manitoba Hydro is seeking to do through the court application?

Mr. Schroeder: Well, currently, there's an application to amend before the court, but the original application was that, ultimately, there would be an award or authorizing the release of the report

to our regulatory bodies: to the PUB, to the Ombudsman, to, I believe, the Auditor General. I don't believe that we mentioned Crown Corporations Council, although all of them have, at one stage or another, started on their own to review this matter. Just offhand, I've been—ask members of this committee to consider whether that's a good thing, that you have people being able to raise issues about your Crown corporations go to Crown Corporations Council, have a determination, then move on to the next and then to the next and then to the next, each time starting from the beginning. But that—I appreciate, that's an aside, but it's something that's worth—I believe, worth considering.

*(19:30)

Currently, we have an amendment to that application to remove all references to the whistle-blower legislation and we anticipate that, at some stage, it will move forward. We have, as yet, I believe it's fair to say, not had a response to the affidavit that we filed which presented our initial piece of evidence in support of our motion and that was about a month ago or so, and there hasn't been an affidavit filed specifically in response to that. So we're still waiting for that and, of course, there will be determinations as to when court proceedings will take place. And there may well be applications to have us have a limitation on what the order can say from the other side or sides. So, right now, we're guessing.

Mr. Cullen: Just so the committee is clear and so I am clear, Manitoba Hydro is asking to have the whistle-blower report made available to the people we talked about, the various committees we talked about?

Mr. Schroeder: We're asking that the KPMG report be made available to all of the—those organizations.

Mr. Cullen: So the KPMG report, then, that you're asking to be public is the one that we talked about here in terms of the scope of the KPMG report. So that—just so I'm clear on that. So this particular report that you've just signed with KPMG, this document you've signed to move forward, the scope we've just talked about, that's the intent of this motion you have before the court is that once this study is done, it could be made public. Am I clear on that?

Mr. Schroeder: I wouldn't want to necessarily say made public. It would be made available to our governing bodies who, presumably, could make it public. We would not object to that.

Mr. Cullen: You'll have to explain to this—this process to me in layman's terms. Why, if you're entering into a contract with a private company, would you have to go to court to make that particular document available to the various groups that you talked about?

Mr. Schroeder: I go back to the cease-and-desist letter which was received by us. There was another one received by KPMG. It resulted in KPMG stopping work for a period of time, for at least a week in December, until this arrangement was worked out that we would, in fact, bring this application and that resulted in them going back to work. But the bottom line was that there were these cease-and-desist letters received by Hydro and by KPMG.

Mr. Cullen: Why would Manitoba Hydro and KPMG be receiving those particular notices to cease and desist?

Mr. Schroeder: There was a former consultant who believed that it had a right to do that and we're in court to have a discussion about that.

Mr. Cullen: Within the scope of this KPMG report then, is this particular report looking at some of the proprietary information that the consultant had used in her reports—in her previous reports?

Mr. Schroeder: I hope not. I don't think so because I don't believe there's anything proprietary in the material that we received and they wouldn't be receiving anything beyond that.

Mr. Cullen: That's why I'm trying to get my head around why we have to go through the court process for you to—for KPMG to release a study that they are doing. That doesn't make sense to me, you know, in layman's terms.

Mr. Schroeder: Well, it doesn't make a great deal of sense to me either, but this was the way in which we were able to resolve the issue of getting KPMG back to work, and we agreed to do this. We believe that it, in fact, at least it ensured a forestalling of having an application elsewhere, and there are differences of opinion about what our legal contractual rights are with the former contractor.

Mr. Cullen: I guess, bear in mind here, we have the interim rate increase before us. My understanding is the PUB is also reviewing risk, doing their own risk analysis on Manitoba Hydro, so you're trying to ascertain where we should be in terms of the long-term rates. My understanding is also that the PUB

will be reviewing the risk analysis, whether it's the contractor in question or not, or other contract that Manitoba Hydro has undertaken. All this information should be available to the Public Utilities Board. So is the KPMG contract you have in place now, is that duplicating what the Public Utilities Board is going to be undertaking in the next few months?

Mr. Schroeder: Well, we certainly hope it's not. The—let's remember going back to when we set the terms of reference with KPMG, we involved the PUB. They were aware of what we were asking and certainly we did this with the intent of having KPMG expert witnesses who would be able to thoroughly review the issues raised and deal with them, deal with the major issues of drought and construction risk and exchange risk, and, you know, the major issues in export sales, and so I don't see it as a duplication. I see it as something that is very much a preparation for that particular hearing.

Mr. Cullen: Is the KPMG report duplicating some of the work, though, that ICF has just completed?

Mr. Schroeder: I haven't put my mind to that. I'd have to consider that. Look, it's so long ago since we gave them their terms of reference and I don't think there was any intention—Mr. Brennan can contradict me—of having ICF as expert witnesses at the upcoming risk hearings.

Mr. Cullen: In terms of the risk hearings, then, with the PUB, do we have a timeframe in terms of when that's going to be undertaken?

Mr. Schroeder: It's—well, right now they're saying June or July is when we are going to be having the—

Floor Comment: It's under review though.

Mr. Schroeder: Yes, we don't have a fixed date.

Mr. Cullen: Yes, last time we met here back in November, we talked a bit about the whistle-blower issues and we talked about some information that the whistle-blower brought forward in late December, and I guess the board became aware of that in January of 2007. What undertakings did the board have after the whistle-blower first brought that first report forward? What did the board undertake to do after those allegations were brought forward?

* (19:40)

Mr. Schroeder: We can provide you with a full history of that, but originally it went to the audit committee, I believe, and later to the board. The power sales organization ended up doing a report

that came out in about May, or so, of 2007. And, meanwhile, we agreed that we would—management would continue or not continue because the contract had ended, but then there was a new agreement entered into to have the contractor try to explain what it was that had been said. And that was expected to be a relatively short process where that individual would do that and have an opportunity to also comment on the power sales organization's report on her report, and that took on a life of its own and didn't end until early 2008. And then in—there was a meeting in 2008—by then, Crown Corporations Council had been involved.

They came in some time—I'm just going by memory here—in early 2007, so they had been contacted by the individual. Their investigation, as far as we were aware, had been completed within a few months, and they appeared to be satisfied from what we can tell. We never heard any further on that. And so there was this meeting in January of 2008 with the senior people in management, the contractor and Crown Corporations Council, and, as a result of that, there were another—there was another—supposed to be a small contract—20 hours a week for six weeks from February 1st to March 15th of 2008 to just tidy things up, and, again, to focus in on what are the big issues. That turned into a much longer performance and ended up being terminated on September 30th, 2008.

And so we were, throughout, obviously concerned about the big issues of risk and looking at what other ways we had to satisfy ourselves in management that the report of the power sales organization had been corrected in the first place, and that's one of the reasons ICF came in, and, of course, the KPMG report also had—was requested by the board and by management, basically, to follow our statutory requirement to ensure that we're providing electricity that is reasonably priced and reliable.

Mr. Cullen: Just so I'm clear and the committee's clear in terms of the time frame here, the consultant in question brought forward a—the initial report in December of 2006. You got together with the Crown corporations committee and—

Floor Comment: Crown Corporations Council.

Mr. Cullen: —Crown Corporations Council—had a review, had a look at those particular issues that the consultant brought forward. And, at that time, you were relatively happy with the explanation, the issues that were brought forward. And you had a

meeting in January, you said, of 2008? And everything seemed to be on line in terms of the answers you were looking for had been addressed.

Mr. Schroeder: We did not receive a report back from Crown Corporations Council. They came to us and did their investigation. They talked with the people at Hydro whom they thought were significant to talk to, and the only thing we know is that there were no issues raised subsequently by Crown Corporations Council and that their CEO was quoted in the press as saying that they were satisfied that the issues had been dealt with. Their CEO was also present at the January 2008 meeting where the contractor was explaining—and this had nothing to do with what Crown Corporations Council had done, just rather it was the contractor trying to explain what it was that had been sent in—said in the original report and defending that report against the internal Hydro report.

Mr. Cullen: So once the contractor met with Manitoba Hydro in January of 2008, Manitoba Hydro, whether it be the board or the executive, did no further follow-up in terms of what the contractor brought forward. There was no other consultant hired to investigate the issues that was brought forward at that particular time. Is that correct?

Mr. Schroeder: At that point, there was no outside investigation. There certainly were inside investigations and reviews of the issues that had been raised.

This is sort of a larger one. This is from Finance and Administration, who had not been a part of that original arrangement, and this was done in 2008, although it was only completed in—I'm sorry, in December of 2008, but—so there were those things going on, and then, of course, she was—there was that six-week, 20-hour-a-week arrangement to—for greater focus, and then ICF—I'm not sure when they came in. I believe they came in in the—sometime in the spring of 2008, but I can—I'll get back to you on the time.

Mr. Cullen: So, to clarify here, once the consultant sat down with Manitoba Hydro, explained the issues that she had raised, did Manitoba Hydro then undertake some internal examination of, perhaps, some of their own programs, their risk management programs? Is that the process? What happened internally within Manitoba Hydro once the consultant brought forward and explained to Manitoba Hydro her issues? And again, this is relative to the January 2008 meeting.

Mr. Brennan: Okay, the purpose of the 2008 meeting was for the consultant to review the individual's comments and reports on the allegations he had previously made, and they ended up with another report, actually, but—so, when we got this particular report—when we got the first report, we asked management for their views on the issues and we got that, and then after we met in January of '08 with the consultant, of which we had the president of the Crown Corporations Council with us at that meeting, and we then—it wasn't clear what the issues were and why they had come about, so we asked the consultant to do some more work to give us to refine her issues and tell us exactly what they were in a language we could understand, and to do that the consultant was paid some money and under another contract and this went on till September 30th of 2008. When the contract ran out, she received a letter from myself saying there'd be no more money, and this is what appears in the paper as me firing her, and in actual fact the contract ran out and we indicted we weren't going to renew it.

Mr. Cullen: So you made reference to another report that was done after your January 2008. Was that an internal report that was done?

Mr. Brennan: We had internal reports, but the one I was specifically referring to was asking her to come up with a report on what the major issues were.

Mr. Cullen: And when did that report come forward from the consultant?

Mr. Brennan: The Chairman's better with the dates than I am. You are.

* (19:50)

Mr. Schroeder: Well, I believe that there was a report somewhere around the end of September, and she updated that later on in November, although there was—the contract was over and there was no more money exchanged.

Mr. Cullen: So, up until the last report was submitted to Manitoba Hydro, September 29th, I believe it was, Manitoba Hydro never undertook any other—never brought any other consultants on to review the work that the consultant had done over the last two to three years. Is that correct?

Mr. Brennan: I think ICF was in there. What is the date of the ICF report, do you know?

Mr. Schroeder: That's what I was asking you. I thought that it was in the spring of 2008, but we will get—we can get back.

Mr. Brennan: If we could go back. During that period of time, we were still trying to identify what the consultant's issues were. Like, they weren't clear to us as to what they were. There was allegations but the—no real substance to them that we could act upon, in our view.

Mr. Cullen: Yes, I'd certainly like clarification on the time frame.

I think, when we last spoke here, in November, my understanding was ICF was brought in after the September 29th. That was the final report that was brought forward to Manitoba Hydro. And I guess what I want to ascertain from here, once the final report was brought forward by the consultant, it was made—I understand would probably be made available to whoever was responsible for risk management at the corporation—probably the CEO, and eventually Manitoba Hydro, the board of directors.

So, what undertakings, did you, as a CEO, undertake once you had the final report dated September 29th?

Mr. Brennan: Could you repeat the question?

Mr. Cullen: It appears that the consultant provided Manitoba Hydro, this would be executive committee or the CEO, with her final report September 29th, 2008. And I'm just trying to ascertain what Manitoba Hydro did with that particular report after September 29th.

Was there an internal review of that particular document? Or, what steps did you, as a CEO, take once you received her final report?

Mr. Brennan: We never really got a final report. That's where we're having difficulty—is getting out the rationale for these allegations and that's what we continue to pay for.

After we had the—like, the whole attempt to hire the contractor after the meeting we had in September—or in January 2008—was to get those issues clarified. It was after that that we hired ICF and I'll have to get you the exact dates of that. But to clearly—we wanted somebody to look at it, external to Manitoba Hydro, to determine whether allegations, as they were made, were realistic or not. And that's why we hired ICF and then, during this period of time, with the audit committee—the board was involved as well—and there was general agreement, both by management and the audit committee, that we should hire somebody over and

above ICF, that even had a broader mandate, to look at these allegations.

Mr. Cullen: So what discussions did you, as the CEO, have with the whistle-blower—contractor—after that September 29th? After—I won't use the word terminated, but her contract expired. It sounds like you had questions that were unanswered. Did you try to ascertain the answers to those questions?

Mr. Brennan: During the whole process we weren't getting answers that we could react to, though we continue to talk to her. I don't think I was directly talking to her. Certainly she got—some discussion she had with me, but, for the most part, the discussions with me were through e-mails, but she was dealing with senior people within the company.

Mr. Cullen: So, does the board of directors felt that the issues that were raised by the contractor, have they been dealt with adequately, this point in time?

Mr. Schroeder: I think it would be fair to say that the board of directors is of the view that the serious allegations, as we attempt to determine what they are, and they're not that easy to determine what they are, are not substantiated. We don't know how this individual arrived at these conclusions. We don't know the process used, but issues were raised that make it incumbent on us to make sure that we do everything we can to ensure that our system is running properly or, if it is not, that we understand exactly where the issues are and that we fix them up. And I think we're completely on the same wavelength as management on that and, certainly, I believe that that is the view of the regulators of the organizations that deal us, as well, that there is nothing substantiated about the significant allegations of—that would be frightening to anyone.

Mr. Cullen: So do you feel that the Public Utilities Board will have the resources to review the allegations and make a decision?

Mr. Schroeder: I think it would be easier to answer that question after we see the KPMG report, but I think it says something about Manitoba Hydro, that it is quite willing to have that report made public without having a clue as to what it is that is being said. And they, the people who are doing the review for KPMG, come from basically across the continent, from different areas of expertise and, certainly, everyone from the corporation who is—whom I've heard of who has had contact with them believes that they know what they're doing. And if that is true, then, hopefully, the conclusions will be such that we

can put this behind us, fix up whatever needs fixing and get on.

Mr. Cullen: Has Manitoba Hydro supplied all the information as requested by the Public Utilities Board to this point in time, in terms of the risk-management considerations?

Mr. Brennan: I don't believe there's anything outstanding. There was some issues at one point, where we had a difference of opinion as to whether the Public Utilities Board should see the information on the basis that there was trade information that we particularly didn't think that we wanted to be public. We thought it would be detrimental to the company to do that, but as the result of a meeting between the president—or the chairman of the Public Utilities Board and myself, we supplied in a way that seemed to satisfy the Public Utilities Board, and I don't think there's anything that they want now that we haven't given them.

* (20:00)

Mr. Schroeder: Just further to that, I think there was also a concern by Hydro, which was—which ended up being alleviated, but the concern being that we were to provide documents which had been produced outside of what we believed to be our contract with a consultant and outside of that consultant's area of expertise, so that we were asking for risk modelling. We were getting reports that had nothing to do with what the contract called for and were outside of the contractor's area of expertise, and from, certainly, from my perspective, those kinds of pieces of information might be interesting but not something that we ought to be required to share. If someone wants to guess about areas that are outside their expertise, they're welcome to do it.

But, having said that, we provided the document.

Mr. Cullen: Back to the Crown Corporations Council for a minute, I just want to make sure I understand what role they played in this thing and what advice they provided to—would it be to the board of directors there or to the management committee? What role did the Crown Corporations Council play?

Mr. Schroeder: Well, maybe Mr. Brennan can add to this, but my understanding is that there was a complaint made by the contractor to the Crown Corporations Council that resulted in their bringing their investigatory group into Manitoba Hydro and met with our people. I didn't meet with any of them

during this time. It was people who were connected with these areas of our corporation.

They did their investigation and we did not hear back. There was no discussion with the board. It is my understanding that that's the way they operate. All we know is that subsequently there was a newspaper article indicating that there was not a concern by Crown Corporations Council following the investigation.

Floor Comment: We also asked the council—

Mr. Chairperson: Sorry, Mr. Brennan.

Mr. Brennan: We also asked the Crown Corporations Council president for their input into the terms of reference for KPMG and they looked at it a couple of times.

Mr. Schroeder: We keep adding things in dribs and drabs, but it was also Crown Corporations Council, I believe, that suggested that we retain a university professor to look at an area of dealing with export power trading.

Mr. Cullen: Was there a certain individual from the council that was assigned to deal with Manitoba Hydro? What kind of a relationship do you have with the council at Manitoba Hydro? Is it with the management committee?

Mr. Brennan: No, we deal with the president. Like, if I was dealing with somebody, it would be the president of the Crown Corporations Council. They did have staff—they'd come in and review areas within the company.

Mr. Cullen: A question for the minister: This whistle-blower allegation has been brought forward to the Ombudsman. It's been probably 15 months at least now since this issue has been brought forward, and I guess it's a real test for the relatively new legislation we have. According to my knowledge, it's the first whistle-blower here in the province of Manitoba under that new legislation.

I'd like to get your perspective on that, and I'm really interested in your comments on the time frame. We've been 15 months here and, in my view, we haven't moved any further ahead in terms of the conclusion on the allegations brought forward.

What's your perception on this?

Ms. Wowchuk: If I recall correctly, the complaint was made to the Ombudsman. The Ombudsman referred it to the Auditor General, and then after some discussion, the Auditor General said she could

not deal with it. It was referred—then it went back to the Ombudsman to deal with it, and the Ombudsman is the person that's looking at. And I have not been given any time frame as to when that report or that investigation will be completed.

Mr. Cullen: I'm going by memory here, but I believe the intent of the legislation is at least that a whistle-blower allegation should be dealt within a fairly expeditious manner.

Does the minister view that 15 months is expeditious?

Ms. Wowchuk: I think that when you have these independent officers such as the Ombudsman or the Auditor General, it depends on the case. They will take the time that they need. I would have to say that—I have to—I'm not sure on the length of time that they're allowed. I would have to look at the act because I'm not familiar that there is a restriction on time, that they have to report by a certain length of time, but I think that—be this case has gone back and forth, and now the PUB is involved in some of the issues as well. So I am not sure of the length of time and it's difficult to go but we can check. I'm not sure what length of time it will take to complete this. I don't know.

Mr. Cullen: Well, obviously we're dealing with our largest Crown corporation here in the province and it's—fairly substantial issues have been brought forward, and I think Manitobans—in the public interest—would like to see the issue resolved one way or another, and I'm just curious in what role the government's going to take into making sure that the public interest is being addressed.

Ms. Wowchuk: Well both the—the Ombudsman is an independent office and the government cannot interfere with the Ombudsman's office. The Ombudsman has the case and will do the investigation and she can investigate and get the expertise that she needs to work through this, but government can't influence what the Ombudsman is doing.

Mr. Cullen: Well, that's contrary, Madam Minister, to what you said a few months ago when you asked the Auditor General to undertake this on a very expeditious manner. Can you explain to me the contradiction?

Ms. Wowchuk: It's not a contradiction. I asked—I did write a letter to the Auditor General to deal with it, to look at it in an expeditious way. The Auditor General said she couldn't do it. She's referred it back to the

Ombudsman to deal with it and we have to wait for the Ombudsman to deal with it.

I had asked the Auditor General to deal with it in an expeditious way. We wanted it done. She had then indicated that she couldn't do it. She couldn't do it so she referred it back to the Ombudsman.

Mr. Cullen: Yes. And you admitted that you did approach the Auditor General's office to have it dealt with in an expeditious manner but now you're saying you're not going to talk to the Ombudsman to have it dealt with in an expeditious manner. There's a real double standard here, Madam Minister, and I'm just—I'm trying to get an understanding of why there is a double standard.

Ms. Wowchuk: I don't believe there's a double standard. When the issue arose we asked—I did write a letter to the Auditor General to ask her to review it. It came before this committee here and there was a lot of questions asked of the Auditor General as to whether or not she should deal with it or not. She then made the decision that she couldn't deal with it and she referred it back to the Ombudsman, and that's where it sits now. I have not—that's where it sits.

Mr. McFadyen: Just one question. The member for Selkirk (Mr. Dewar) just mentioned that the Ombudsman's report will come out in November of 2011 right after the election. Is that the position of the government?

Ms. Wowchuk: Mr. Chairman, and you know we often have side conversations at this table and I show respect for my other colleagues by not repeating—

An Honourable Member: —he was yelling it across the table.

Ms. Wowchuk: Yes, well, the member opposite, the Leader of the Opposition has no respect for members making comments around the table. I would have to say the—[interjection]—when the Ombudsman makes her report we will—it'll be—her report will be tabled. I do not have information. If it is the request of this committee I can then go and ask the Ombudsman when that report will be prepared. What I'm saying is I have not had discussions with her on this case.

Mr. Cullen: The intent of the legislation is—whistle-blower protection act—do you feel that the act is actually protecting the whistle-blower in these particular circumstances?

* (20:10)

Ms. Wowchuk: I have no reason to feel that it's not protecting the whistle-blower. I think the legislation is working. I don't—I have not heard any disclosures otherwise, and I think, you know, this is important legislation that we've brought forward to give people the protection that they need when they want to raise an issue of a—of government, of a Crown corporation, and I believe the individual has been protected.

Mr. Schroeder: Well, perhaps I shouldn't say anything, but it seems to me that when you are a whistle-blower, the whole concept is that you go to an agency and tell them and have it dealt with as opposed to having it spread to—right across the country. And I question, quite frankly, whether there is or ought to be a legal right to whistle-blower legislation protection for an individual who is out there providing documents to all kinds of organizations, some of which we believe did not have a right to them. But that's something that will be dealt with.

Now, having said that, we don't know who the whistle-blower is, technically, No. 1. Number 2, let's remember this as well, No. 2, under the legislation, the Ombudsman can't tell us what the complaint is. So we don't know what the complaint is. And that's not just theoretical, that's factual. We do not have the complaint.

Mr. Cullen: Well, I think that points to the lack of the clarity in the legislation. Now here we are 15 months and you don't even know, or say you don't even know, what the claim's all about. I mean, clearly the legislation that the government brought forward a number of years ago in reaction to another whistle-blower who was terminated by the government really doesn't hold much water. And we're trying to get to the bottom of this just as much as anybody else. And I think as Manitobans and as Hydro ratepayers, we should be getting to the bottom of these very serious allegations. And all we see is—we see, and what appears to be the whistle-blower, a former contractor, being dragged through the court system by Manitoba Hydro, and I don't think that's the intent of the whistle-blower legislation.

Mr. Schroeder: Well, it seems to me that it's difficult for a legislature to contemplate that it will be faced with someone opening a series of doors, and if you don't like the first door, you open the next one, Crown Corporations Council, the Public Utilities Board, the Auditor, the Ombudsman, each one

starting from ground zero. And that's why I was saying maybe it's time to consider that.

Mr. Chairperson: Just wondered if committee was willing to consider—Mr. Borotsik?

Mr. Borotsik: I was just going to suggest that. Now that my colleague from Turtle Mountain has, for the time being, rested his questions, perhaps we could take a five-minute recess, Mr. Chairman, so Mr. Brennan can get ready for the next series of questions that I prepare to propose.

Mr. Chairperson: The committee agree to a five-minute recess?

Some Honourable Members: Agreed.

Mr. Chairperson: Okay, recess for five minutes.

The committee recessed at 8:13 p.m.

The committee resumed at 8:24 p.m.

Mr. Chairperson: Will the Standing Committee please come back to order. The floor is open for questions.

Mr. Borotsik: Thank you, and I do thank you—thank Mr. Brennan and Mr. Schroeder.

Mr. Brennan, I've had the opportunity of attending one consultation meeting in Rosssburn, and I have one other one set up for tomorrow evening in Brandon.

I'd just like to say, before I start my questions, that I've had the opportunity of dealing with Manitoba Hydro staff as well as some of your consultants, and I would like to put it on the record that they are extremely professional. They have handled themselves extremely well, and I do appreciate all of their assistance in putting information forward to quite a number of people, actually, who are interested in what Manitoba Hydro is proposing on the west side, the three different alternatives. So I just wanted to put that on the record. You've got some very talented and very professional staff in your organization.

In saying that, however, on Bipole III, I'm just going to touch a few questions on Bipole III. I know my leader has asked an awful lot of really valuable questions.

Manitoba Hydro, in general, in principle, by policy, when you're developing transmission lines, is

it a principle of Manitoba Hydro to stay away from populated areas wherever they possibly can?

Mr. Brennan: Yes.

Mr. Borotsik: Can you tell me which has a higher population, the west side or east side of the lakes?

Mr. Brennan: I think, clearly, the west side.

Mr. Borotsik: So is it principle or is it policy for Manitoba Hydro to try to stay away from populated areas when developing transition–transmission lines?

Mr. Brennan: Well—could you repeat that question?

Mr. Borotsik: Well, is it just a principle that Manitoba Hydro share, with respect to, or have, with respect to keeping transmission lines away from populated areas? Or is it, in fact, a policy that's been developed by Manitoba Hydro when developing transmission lines, that they attempt to stay away from populated areas?

Floor Comment: I think it's a guideline.

Mr. Chairperson: Mr. Brennan.

Mr. Brennan: The third one.

An Honourable Member: Did you get that?

Mr. Brennan: A guideline.

Mr. Borotsik: So, it's simply a guideline to stay away from populated areas.

When developing transmission lines—well, first of all, a question, Mr. Brennan. Have you, in your capacity as CEO, developed transmission lines previously on behalf of Manitoba Hydro?

Mr. Brennan: I'm definitely not a designer of transmission lines.

Mr. Borotsik: Have you been CEO when those transmission lines have been designed and implemented?

Mr. Brennan: Yes, and also when I was a vice-president of finance.

Mr. Borotsik: When developing transmission lines, is it, again, a guideline of Manitoba Hydro's to put those transmission lines in the shortest possible distance from point A to point B when developing those transmission lines?

Mr. Brennan: We would do that, considering all other mitigating issues.

Mr. Borotsik: Considering those mitigating issues are equal on both—on all of the different options and

proposals, would a straight line be the preferred option for Manitoba Hydro?

Mr. Brennan: If all issues were the same, which is not possible.

Mr. Borotsik: You're right. In some cases, political options come in to bear on that, so perhaps not all are equal.

You had indicated that on the Bipole III that you have not included any land costs in the capital cost of \$2.2 billion. Is that correct?

Mr. Brennan: I don't think I said that. I forget what Mr. McFadyen's question to me was but—

An Honourable Member: Do you want me to—

Mr. Brennan: Sure.

Mr. McFadyen: Mr. Brennan's referring to a comment I made earlier about the inclusion of land acquisition costs and the 2.2-billion project estimate. There was a reference made by officials at a meeting that it was outside of the 2.2 billion. That was the basis for my question.

Mr. Borotsik: To Mr. Brennan, to your knowledge, Mr. Brennan, are land acquisition costs included in that cost of 2.2 billion and, if so, what would the costs be and, if not, do you have any projections as to what those costs may well be?

Mr. Brennan: I think I'd have to look at that. The numbers I thought were in the forecast were all inclusive. So I'd have to look at it.

Mr. Borotsik: Could you look at—well, as I understand it—as I understand, Mr. Brennan, you are going to be doing an update capital cost on the project itself. That update of capital costs is going to have comparisons, east side, west side.

I assume, or I shouldn't assume, I guess, but do you—will you be putting those land acquisition costs into those updated costs?

* (20:30)

Mr. Brennan: If, in fact, they're not in there now. Now, from a management perspective, unless we're asked to do otherwise by the board, I don't know why we'd update costs for a line that we don't know anything about. Like, we wouldn't do anything for the east side.

Mr. Borotsik: On the west side, your own documentation indicates that on the west side and the shortest of the options you have, which is route B,

there's approximately 27 percent of private land ownership on the route B.

Can you tell me what the private land ownership might be on the east side? Do you have any of those numbers?

Mr. Brennan: No. I am not close to that at all.

Mr. Borotsik: There's also 16 percent—and I'm taking the shortest route because I do believe that Manitoba Hydro would look at the shortest route for transmission lines. I just believe, more so than just simply principle, it is certainly a good policy statement to say—so on the shortest route, if you should pick route B in May or June, there's approximately 16 percent of agricultural land on the west side. I can assure you that the agricultural land is minimal on the east side.

We have certain agricultural sensitivities. You had sent a letter to one of my colleagues saying that the—that there would not be any expropriation of agricultural land.

Can you tell me that if you don't expropriate and you can't negotiate, how you would be able to transverse that agricultural land?

Mr. Brennan: Somebody will always be prepared to sell property. It's a matter of negotiating a price.

Mr. Borotsik: That's not necessarily true. As a matter of fact, there was just a circumstance out in St. Lazare where an individual didn't want to sell his land, and it was trying to be expropriated by the municipality and, quite frankly, it's now been dropped from the courts because the costs were so horrendously high.

So assuming that some of those individuals do not want Manitoba Hydro to transverse their land, if you can't expropriate and you can't negotiate, what would the other options be?

Mr. Brennan: Reroute the transmission line.

Mr. Borotsik: One of the other principles that we heard of, and maybe you would correct me if I'm wrong, one of the other principles that we heard of was that you would not go diagonally across any property. You would try to transverse it on a right-angle basis. Should there be lands that you can't purchase and you have to go diagonally across another piece of land, would you change your policies then for that particular area?

Mr. Brennan: I think that's another guideline, but we would try to avoid that as much as we'd try to

avoid anything else. So we'd keep looking at it and see if we could avoid the particular area in question. Clearly, we want to go in a straight line or close to it.

I think, in time, Manitoba Hydro has found that it's just not the best thing to do, is go diagonally across people's land when you're farming it, and there usually is other options we can do to avoid that.

Mr. Borotsik: You had indicated that people will sell their land at any price and you can negotiate.

Floor Comment: That's probably an exaggeration, but—

Mr. Borotsik: Are you prepared to say here that Manitoba Hydro would not in fact expropriate any of the lands if necessary?

Mr. Brennan: We have not made a policy statement to that effect. We will certainly try to avoid it.

Mr. Borotsik: Avoidance is one thing, but you would use it as a tool if necessary?

Mr. Brennan: I think we'd make that decision when the time came. I think our guideline is to avoid it.

Mr. Borotsik: I appreciate that, and avoidance is the best nature. There's no question negotiation certainly would be the best of all, but I take it from your discussion that you would deal with that at the time and expropriation would not be off the table.

Floor Comment: No, we'd certainly—

Mr. Chairperson: Mr. Brennan. Sorry, Mr. Brennan, I have to recognize you for the microphone.

Mr. Brennan: Yes. Sorry.

We'd try to avoid it. And I don't think it's fair to say it's off the table. We'd do everything possible to avoid it. So it's more likely to be on the table than off, but you can say it your way if you want.

Mr. Borotsik: It's not my way to say it; it's Manitoba Hydro's way to say it. As to whether you would use that tool or not use that tool is entirely Manitoba Hydro's discretion.

Mr. Brennan: It'd be pretty remote.

Mr. Borotsik: We've heard an awful lot about the Farlinger report, which, by the way, in reading the Farlinger report, does have pros and cons from both sides. Farlinger did look at the east side and the west side, and he had some pluses and minuses on both sides.

The Farlinger report is one report. Does the Manitoba Hydro—are they in—are in possession of any reports, regardless of time, with respect to east-side options?

Mr. Brennan: You know, I can't recall from the top of my head any others, but there certainly could be.

Mr. Borotsik: Is there an opportunity, Mr. Brennan, to provide that information, to see if, in fact, there are some east-side studies that had been performed by Manitoba Hydro in the past?

Mr. Brennan: I'd certainly be prepared to look.

Mr. Borotsik: I find it interesting that with the whistleblower we've had second opinions and third opinions. We've had the ICS report. We've had the KPMG report. We've had the original consultant's report. So we've got second and third opinions, but we have only one report, which is the Farlinger report, with respect to a \$2.2-billion capital project, yet there hasn't been any desire for Manitoba Hydro to look at a second opinion on the Farlinger report.

Was that directed not to have any second opinions or was that your decision, Mr. Brennan, just to accept, *carte blanche*, one particular report on a \$2.2-billion capital project?

Mr. Brennan: Well, if you recall previous discussions at this committee, management had originally made the recommendation to come down the east side, and that issue was talked to by the board of Manitoba Hydro with management and, clearly, there was a concern about whether Manitoba Hydro's management had given due consideration to environmentalists' concern and risks, and there was a view, and it was quite clearly given to management, that we had underestimated this type of risk.

We also, then, were asked by the board of Manitoba Hydro to look at all other options, to make sure that Manitoba Hydro has the reliability of our system, without coming down the east side. We did all that and we came back with a recommendation, that if the east side was not an option then the best alternative was to come down the west side.

Mr. Borotsik: Management's original proposal was to go down the east side. You've admitted to that at this point in time.

Did management's mind change in 2007, when they received a letter from, at that time, Minister Selinger, who was responsible for Manitoba Hydro? Is that the date where the east side no longer was viable and the west side was the only option?

Mr. Brennan: The management of Manitoba Hydro takes policy direction, and we took the policy direction, and hopefully we'll always do that.

Mr. Borotsik: Policy direction is one thing, but certainly the logical decision should still be implemented, and hopefully we would do that. But it seems that we've got three options on the west side, currently. Of the three options on the west side, it's anticipated, and I know that I shouldn't put any words in your mouth, but it's anticipated that the shortest route will be chosen; route B, I understand it is.

Does route B go anywhere near Swan River?

Mr. Brennan: You know, I'm not the best at looking where the—like, I don't know. I couldn't tell you where the three options are.

You know, we—

Mr. Borotsik: I'll bring you a drawing, Mr. Brennan, after the next meeting.

Mr. Chairperson: Hold on, folks. One at a time, please, and through the Chair if you would.

Mr. Borotsik: Mr. Chair, I will bring you a drawing after the next meeting, Mr. Brennan, and there are three very specific alternates: A, B and—A, C and B, actually; B goes the closest route to the lake. It does go relatively close to Swan River.

* (20:40)

I guess the question I have at the present time, should there be objections from individuals who own property relatively close to the proposed line; First Nations who will be impacted by all three of the proposed alternate routes; environmentalists, who have already suggested that there's some serious concerns with respect to the caribou herds themselves, as well as boreal forests, as well as impact on provincial parks, as well as the potential impact on a federal park, which is Riding Mountain National Park. If there are substantial concerns and feedback, and, perhaps, what I would call a bit of a population uprising, would Manitoba Hydro, then, look at other alternative routes other than the west side of Manitoba?

Mr. Brennan: I think that's too hypothetical a question.

Mr. Borotsik: Well, Mr. Brennan, I would suggest that the east-side objections with these environmentalists that are unnamed, these other organizations that are yet unnamed that have got

hundreds or perhaps thousands of letters of complaint is perhaps also a little hypothetical, Mr. Brennan. Do you have any hard data that you can provide us right now that those objections are not hypothetical and you're prepared to table?

Ms. Wowchuk: Mr. Chairman, we—you know, those are hypothetical questions that the member is putting, but, given those comments, and when I hear that—where the member is going, it's quite clear that there isn't a desire on the—on members of the opposition to get Hydro to market. A decision was made in 2007. The process has begun. The routes have—three routes have been picked, have been—and work has been done. A decision will be made on which route is going, and then there's going to have to be some work to maybe move slightly one way or another in order to determine the route, but I trust that the engineers and the people that are at Hydro will be able to do that.

But, you know, we've heard earlier today or in other comments from the members opposite that we could delay this and go back to the east side again and start all over again, and, in reality, there is a time line that we have to get this done in order to meet our supply and to meet our commitments to our sale obligations.

So the member is asking hypothetical questions, but in reality we have to get this line built, and Hydro is moving along at the best speed that they can.

Mr. Borotsik: Those arguments are getting tired, Mr. Chairman, and I appreciate the minister continuing to make them because it's the only one that she has at the present time.

However, Mr. Brennan, how many towers are there on average per kilometre?

Mr. Brennan: I did know the answer to that, but I forget it.

Mr. Borotsik: I believe it's three, and it depends on the topography, but it's—I believe it's three on average per kilometre on 450 additional kilometres, and that's picking the shortest route on the west side. That's not the longest route, that's the shortest route on the west side. The difference is 450 kilometres. At 450 kilometres at three towers, we're talking about 1,350 additional towers.

When dealing with risk—and we deal with tornadoes. We deal with ice storms. We deal with, in some cases going through agricultural land,

agricultural equipment and machinery. With those 1,350 towers, does that not, in fact, increase the risk of the Bipole III, coming with the extension of an additional 450 kilometres?

Mr. Brennan: Yes.

Can I just—I want to say something about the three routes. I do know that there's three routes, by the way, when you're implying that I didn't.

Mr. Borotsik: I didn't imply.

Mr. Brennan: Yes, I thought you did but, regardless, I would like to put on the record I obviously have seen the maps. I know where the lines are. I'm not closed to that, and I think we got a real good professional team working on them, and if they come across issues after they've determined the proposed line in—that they propose in May, I think round 4 will tell us what these issues are and we'll deal with them at the time.

Mr. Borotsik: Thank you, and I've already stated at the beginning that I believe that your people are totally professional and certainly are very capable individuals. They've been charged with a task. They've been given direction and they are prepared to, obviously, try to do the best they can with that direction. I can't speak for them, but I do know that they would probably like to look at other alternatives.

Speaking of which, Manitoba Hydro, prior to 2007, I think, was looking at the east side to be the location of the next Bipole III as opposed to the west side. Is that not correct?

Mr. Brennan: I think I already confirmed that.

Mr. Borotsik: Thank you. Just, another confirmation is not a bad thing.

The two bipole we had, the Bipole I and Bipole II, currently, are they at capacity at the present time?

Mr. Brennan: Yes.

Mr. Borotsik: So Wuskwatim coming on line would not—the Bipole I and Bipole II would not be able to accommodate any of the Wuskwatim 200 megawatts?

Mr. Brennan: Wuskwatim output will be covered by the AC system, not the DC system.

Mr. Borotsik: So the Bipole III \$2.2-billion capital project is not necessary for the 200 kilowatts that are being developed currently at Wuskwatim?

Mr. Brennan: Correct.

Mr. Borotsik: In saying that, then, when actually will the Bipole III be necessary for capacity for DC transmission?

Mr. Brennan: Bipole III is required right now. We have a major, major risk in something happening to the two transmission lines we have now. And we're getting to the point where—well, we're there at the point where we couldn't meet the Manitoba load if something major happened to it.

Mr. Borotsik: And then you absolutely get no argument at all from myself or anyone at this side of the table, that, in fact, there is a risk there and certainly it is a need to separate the Bipole I, II and III. There's absolutely no question about that whatsoever. We talk about risks with respect to weather. We talk about risks with respect to fires. Your staff do a great job explaining why it's necessary to have Bipole III.

We've had that risk in place for a substantial period of time. Well, since we've developed Manitoba Hydro, there's only been the two lines and they both travel parallel with each other. So we do recognize that there's a need to limit the risk.

My question is: Is the capacity of I and II at the present time—is sufficient to provide service not only to the domestic market but also to the extraprovincial right now and into the future. Is that correct?

Mr. Brennan: Can I answer your question in two ways? First of all, the risk issue has gotten much worse over time. If you go back, you know, quite a way, I guess, it's gradually been getting worse with the increased load growth. At one point we could supply the Manitoba load in the south from other sources, and if we, in fact, lost Bipole I and II, we're able to supply the load. As our own load growth has gone up and is continuing to grow, it gets harder and harder to supply that load because we just don't have enough alternate sources.

Now, if, as we go forward in the future, the more load we have in our system, the harder it is to find alternate ways to supply that and, you know, the risk is greater and greater. In terms of the capacity issue, if we built new generation in the north, we couldn't get it out without the line.

Mr. Borotsik: That's true, but not Wuskwatim. It would be new generation Keeyask or Conawapa. Wuskwatim right now can be accommodated by Bipole I and Bipole II and the AC lines.

Mr. Brennan: Yeah, you're correct. I should have qualified that by saying any major plant on the Nelson.

Mr. Borotsik: Thank you. And, by the way, we do recognize that there's substantial risk. As a matter of fact, I think a whistle-blower had identified quite a number of areas of risk that Manitoba Hydro have at the present time, but I don't think Bipole III was one of those areas that were identified.

Mr. Brennan: Strange enough, it wasn't

Mr. Borotsik: Strange enough, it wasn't.

Shifting gears just a little bit: In your annual report you talk about, quite extensively, actually, the new Hydro building that we have in downtown Winnipeg. The only one that was developed in downtown Winnipeg was a public project through Manitoba Hydro. It's a beautiful edifice. I know you've got quite a number of awards, I'm told, for the building itself.

* (20:50)

I wonder if you could help me with this. What's the square footage of that building, Mr. Brennan?

Mr. Brennan: I think about 690 some-odd thousand.

Mr. Borotsik: Of that 600 and some-odd 90,000, what will be utilized by Manitoba Hydro and what will be put out for lease to the marketplace?

Mr. Brennan: The first floor will be leased out and one small part of the second floor.

Mr. Borotsik: Do we know the square footage of the first floor and that one small part of the second floor?

Mr. Brennan: No, I'd have to get it for you.

Mr. Borotsik: Can you tell me what the lease rates are going to be for the marketplace and just how leasing is going on that first floor and small part of the second floor?

Mr. Brennan: The second floor has a small amount left to—there wasn't a lot in the first place but they got quite a small area to still lease. On the first floor there is some leased area that still has to be leased on the south side onto Graham and there's some on Edmonton that still requires some lease, some leasers.

Mr. Borotsik: I wonder if you could become just a little bit more specific. Do we know the square footage? Do we know how much has been leased? Do we know how much has not been leased? And

can you tell me what the per square foot rental rate is that you're asking for for that particular commercial space, which is first floor commercial space?

Mr. Brennan: I'd have to get the exact numbers for you.

Mr. Borotsik: Could I ask you to provide me with those numbers? It's pretty simple because you have leasing agents, I assume, who have the space allocation. They know what it is. They know what the lease rates are. They know what's been leased. They know what hasn't been leased. It should be pretty simple to get.

Mr. Brennan: As soon as we get a *Hansard* I'll get it for you.

Mr. Borotsik: Thank you, Mr. Brennan. I do appreciate that.

When dealing with new buildings there's always deficiencies. Normally what happens is one files and tables a deficiencies report with the contractor. Do you know, Mr. Brennan, whether there has been a deficiencies report filed with the contractor?

Mr. Brennan: I haven't seen it but I'm sure there is.

Mr. Borotsik: Once again, Mr. Brennan, could you provide a deficiencies report to the committee so that we could look at the deficiencies that have been identified in that building, that structure?

Mr. Brennan: I would like advice on that before I agree to—like, we're dealing with a—sorry, we're dealing with a—some other parties and I think I'd just have to ask for advice.

Mr. Borotsik: Well, Mr. Brennan, I looked at this report here and I've heard from any numbers of—actually, quite a number of people from Manitoba Hydro who have been sent out and they extol the virtues of this building, the environmental aspect of it. They extol the virtues of all of those wonderful awards that have been won by the building. I appreciate the fact that you'll get some advice of deficiency reports but there are always deficiencies.

I have been told, anecdotally, that perhaps there are even some—there's some deficiencies with respect to the heating systems themselves. That's something that's not—I don't think a secret. I wonder if that's the part that you have to get some advice on.

Mr. Brennan: No, I think the part I'd like advice on is releasing the information. Right now we're trying to get people to fix all that stuff and I think it'd be prudent on my side to get advice.

Mr. Borotsik: Prudence is fine, but I do appreciate you asking that advice and certainly any of the deficiencies that can be reported. Perhaps taking the advice of your professionals, you would make that available to the committee.

Mr. Brennan: Manitoba Hydro is, despite what you read in the paper, is very committed to making information available to people and we really want to do that. Like, it doesn't hurt us at all.

Mr. Borotsik: You know what, I will send a copy of this *Hansard* to the Public Utilities Board. I'm sure they'll be very happy to see that comment about providing all of the information that is being requested.

The capital cost of the building itself, I know at the last meeting we had that you had indicated that the—that, well, the original capital budget was 75 million. That's been refuted. That was just simply a starting point from what I understand. I believe now, and correct me if I'm wrong, that the final number that you have given is 283 million, is that the correct number? Or has there been additional capital costs that have been identified since the last meeting that have also been allocated to that building construction cost?

Mr. Brennan: Our budget for the building is 278 million, and it appears it's going to be overspent than that, and it will be closer to 283, that you have talked about.

Mr. Borotsik: That was the number at the last meeting. Has there been any adjustments to that capital since that last meeting? It's 283 and do you anticipate any additional capital going into the building? Have you been approached by any of your staff that require additional capital to go into the building in order to bring it up to a standard that they would like to see?

Mr. Brennan: No, the 283 is certainly the last number I heard and I can't imagine it being any different than that.

The—there was—we did have concerns about people moving into the building when they first moved in. Like, there's all kinds of issues associated with heating and cooling and other issues, and the real problem we had was we—because of leases expiring on the existing property, we started moving people in before the building was completed, and although there was advantages cost wise, it's not always the best thing to do. You got people working

in an office environment in a construction zone and things are not working properly.

By the time I moved in at the end of September, it was a pretty nice operating facility and I think it's a real nice place to work.

Mr. Borotsik: I believe that it is a very nice place to work and I appreciate that. Two hundred and eighty-three million dollars should provide fairly decent office space for just about anybody, I suspect, so I'm glad you're happy with it.

The last question on the building, then I want to change gears a little bit. The 283-million capital, does that include fixtures and furnishings as well, or is that just simply bricks and mortar capital?

Mr. Brennan: It includes everything, including furnishings.

Mr. Borotsik: You had indicated that the price of extraprovincial power had dropped due to any numbers of circumstances: price of gas, recession, other issues. Are those contracts that you have not at fixed price? Do you not have a fixed-price contract right now with our extraprovincial contracts, or are they a floating rate?

Mr. Brennan: We have both.

Mr. Borotsik: Can you give me percentages on fixed and percentages on floating?

Mr. Brennan: No, I can't give it off the top of my head but I can get that information for you quite quickly.

Mr. Borotsik: I would appreciate that.

The information that I received in your reports indicate that there's actually been more power sold extraprovincially: 9.1 billion, I believe it is, kilowatts–kilowatt hours—as opposed to 9.0 billion kilowatt hours previously. So we're selling more power extraprovincially, yet we're receiving substantially less revenue, about 38 percent less revenue, extraprovincially.

So can you explain to me why it is we can sell more power extraprovincially but generate substantially less revenue?

Mr. Brennan: It would appear, you know, it's just a function of what price you get. You can sell everything up to the capacity of the transmission line going outside the province.

What we want to do is sell as much as we can on prime time, when the prices are highest, and that's pretty well what we do.

If you've got a firm contract, then you get a higher price because people are paying to ensure that they avoid whatever costs they have on their system. They can avoid and they can afford to pay a good portion of that to you. And in the case of a large hydro plant, it's something we want to do, is sell the surplus capability.

* (21:00)

Mr. Borotsik: Oh, I—yeah, we sell the surplus capability, but it scares me a little bit to know that 38 percent less revenues are being generated and derived from more power being sold into our extraprovincial customers. The reason that perhaps scares me a little bit is that in your integrative financial forecast you talk about Minnesota Power, you talk about Wisconsin Public Service and Northern States Power, which we have term sheets for, but we don't have any long-term contracts. Are the long-term contracts—are you anticipating that you're going to tie in fixed power rates, or are we going to have floating rates like we do currently?

Mr. Brennan: Fixed prices, and those prices, although they're fixed, some part of the price is subject to escalation. So they're a fixed base to start with and then some part of that is subject to future escalation as well.

Mr. Borotsik: CPI escalations are a very good thing to tie into a fixed rate. But can you tell me why going forward you're going to have fixed rates? But will the contracts you have currently, right now, obviously are not fixed rates because we have 30 percent–38 percent—less revenue for more power. I just don't understand the correlation. Why is it that we don't have those fixed rates currently into contracts, but going forward you're going to protect all that?

Mr. Brennan: We do have it on the ones we have right now. The major contract we have is a 500-megawatt sale to NSB, and that's got a fixed price to it.

Mr. Borotsik: Was that part of the concerns that the consultant had with respect to the—perhaps, lost value to the power sales?

Mr. Brennan: If I remember correctly, the contractor wanted to not have fixed contracts. The contractor thought it'd be in our interest to just—well, just let the price float, and whatever it is it is, and by

doing that there was a expectation that we'd have more revenue than we would under a fixed price.

Mr. Borotsik: She must have been very happy with your operation to date because, obviously, with the floating rates, she must have been happy with that.

Mr. Brennan: We still have the 500 megawatts available.

All our generation, by the way, is a function of water. So if you got good water you can sell more, and that's how you can sell more one year than another. That's despite—by the way, we're still having increases in our load. So the Manitoba load is going upwards supplying that, and we're still getting increases in the export market.

Mr. Borotsik: We are definitely getting increases in the export market. The problem is we're getting less revenue out of those export markets. We're getting 38 percent less revenue at the present time in those export markets. So selling a lot of volume for very little return does not make for good business, at least, any of the business that I've known. Just because you sell volume doesn't necessarily mean that you're making money or making margins.

Mr. Brennan: Most businesses are subject to market prices and that's—so is Manitoba Hydro.

Mr. Borotsik: Unless they're fixed rates and people pay those fixed rates.

Net earnings, scary, to say the least, went from 298 million up to 346 million, 121 million, 78 million, is the proposals—I believe—what we've got for that? I think you're looking at, and I know of this coming year—we've had some real serious problems this fiscal year, substantial losses from the—and I know I can't talk about the six-month quarterly or the six—the two—second quarter or third quarter results, but I do know, in your projections going forward, you've anticipated substantially lower net revenues. For example, in 2009—this, again, comes from the report—\$129 million for 2009-10, which you probably will not succeed, 88 million for '10-11 and 98 million for '11-12. Normally when you've got fixed rates and good contracts and you have a 2.9 percent increase you look at generating more net income. Can you tell me why the net incomes are falling off so dramatically?

Mr. Brennan: Yeah. I've already explained that those numbers sound reasonable, by the way, the ones you gave. Like, I think it's something in the order for at least the current year that you mentioned.

The difference between average flows and low flows and high flows is a horrendous number, and so that's just the flows in our system. And we can give you the numbers, but if we get low flows, it is really, really costly to Manitoba Hydro. If we have high flows, we do better and, of course, we have the market to deal with as well at this particular point. So the power we sell on the export market of which this is anything above the median we can't sell at a fixed price.

You know, you can't sell power at a fixed price if you don't have it, and so that's the stuff we sell on the export market in or up to about—or whatever the market price is, and there's a lot of energy there.

Mr. Borotsik: So you're anticipating low flows? *[interjection]*

Mr. Chairperson: Mr. Brennan?

Mr. Brennan: By the way, you couldn't make that firm. If you made that firm, you'd have to find a way to buy that power or find it in some other source and that would cost you a bundle, but—

Mr. Borotsik: Mr. Brennan, in your own numbers going forward, your forecast—in 2010-2011 you're forecasting a net income of 88 million, which is substantially lower than the 2009-10 forecast which is around 120, which will probably be less because we haven't had the final quarter.

I still don't understand. Are the water flows that much lower that you're anticipating, an 88—a drop of about \$22 million in net earnings, a drop of about \$300 million from 2007-2008. Are the water flows the concern—that why you're having such low net earnings forecast?

Mr. Brennan: No, it's not water flows at all. It's all price, and it's market price for this interruptible power that I was mentioning to you earlier.

Mr. Borotsik: So you're suggesting prices are going to be remaining quite low for 2010-2011, 2011-2012. They're going to be substantially lower than what they've been in 2007-2008.

So you're suggesting it's price that's causing the net incomes to drop, net earnings to drop?

Mr. Brennan: Absolutely.

Mr. Borotsik: I guess that goes back to my other question then. You obviously have an expectation that you're going to lose extraprovincial sales. The 2.9 percent on domestic—domestics stay pretty much static. Domestic sales haven't changed quite

dramatically one way or the other, so with a 2.9 percent increase on rates your domestic is going to stay pretty static.

So you're suggesting you're going to lose extraprovincial sales and you're going to be selling the same amount of power for less money yet, again?

Mr. Brennan: As I mentioned, the recession in the United States as well as the low price of natural gas, which the people that are buying our power use as an alternative to us, is causing us to get less in the way of export prices for interruptible power that is coming about because we have flows that are above the low flows.

Mr. Borotsik: I guess the last question I have about that, yet you've done your projections out to 2024 and 2025, and you're now anticipating that we're going to have a 51, 49 percent debt-equity ratio because we're going to generate over another \$1.5 billion in sales. Today we can't say that, but you're saying 20 years out or 15 years out we are going to be able to generate that kind of cash.

Mr. Brennan: I think since 1990 Manitoba Hydro had equity of less than a hundred million dollars. Today we've got equity of 2.2—[interjection] Yeah, 2.2 billion, but closer rate today to 2.3 billion and I'm pretty proud of that.

Mr. Borotsik: And from what I'm told in reading some of the documents, and perhaps from the whistle-blower, that in one bad year that 2.2 billion could be taken—that whole 2.2 billion could be taken because of the debt loads that we now have.

* (21:10)

Because of the debt loads that Manitoba Hydro is going to have going further into the future, that 2.2 billion could be used up in one year, similar to a fiscal stabilization fund, but it could be used up in one year. Is that correct?

Mr. Brennan: It's not because of the debt load we have. It's because of the fact you won't have that generation available for sale on the export market, and you're going to have to not get that benefit. And there's a big cost for that, and we experienced that in 2004.

An Honourable Member: We sure did; lost \$204 million.

Mr. Chairperson: Mr. Borotsik.

Mr. Borotsik: Just two other questions very quickly, and I'll pass it on to my colleague.

This has to do with Wuskwatim and the partnership that you have with NCN. In reading the documents, and we've talked about this previously, currently there's the ability for NCN to acquire up to 33 percent in partnership of the generating station alone, just the generating station. But Manitoba Hydro is prepared to finance only 22 percent of the project.

Should NCN decide to take their full participation of one-third, how will they or do you have any understanding as to how they will come up with the additional capital to go into the project?

Mr. Brennan: I think there's—they have some assets of their own, some of which came as a result of Manitoba Hydro entering into an agreement with them for some of the issues that we created for them in our developments of the '70s, and so they have some funds available there. And I think they might have other stuff. We don't know exactly where they're going to get it from, but it's my expectation that they will certainly come up with what they can, if they think it's in their interest to do it.

Mr. Borotsik: Is it your understanding that they'll take full 33 percent participation, or just stay at the 22 percent level, that Manitoba Hydro then would borrow on their behalf?

Mr. Brennan: I think they'll try to take as much as they can.

Mr. Borotsik: From what I understand, the revised budget for Wuskwatim is now 1.6 billion. Has there been any revisions on top of that?

Mr. Brennan: No.

Mr. Borotsik: If I can, at a later time, I'll get into some hiring practices at Wuskwatim, but I'll pass it on to my colleague.

Mr. Cliff Graydon (Emerson): Mr. Brennan, just a couple of questions that arose out of the questioning by my colleague, and you spoke about the water flow and having a big impact on the bottom line, you know, on your economic bottom line.

Could you tell me what the increased cost of that water has been in the last 10 years?

Mr. Brennan: No. I'd have to—we'd have to be—the increased cost?

An Honourable Member: Water rates.

Mr. Brennan: Oh. Water rates, water rental rates. Sorry. No, if you—we can tell you what our water

rental costs are in the last 10 years. I could get it for you.

Mr. Graydon: Could you tell me who that was paid to?

Mr. Brennan: The Province of Manitoba.

Mr. Graydon: Is that a negotiated rate?

Mr. Brennan: No.

Mr. Graydon: You did talk about the two lines that we have now, I and II, and if you ran the third line there, there could be a terrible disruption in power, but that you were able to compensate today, at today's load, if there was a disruption on both of those lines, that you had additional power that you could substitute. Where would that power come from?

Mr. Brennan: It'd come from all our existing plants we have, including a—the gas combustion turbine in Brandon, the Selkirk plant, and, I don't know if we—I don't think we do have enough to take care of the Manitoba load at certain times of the year now. I think we'd have a trouble today.

Mr. Graydon: Could you expect to get feedback from Alberta or from Minnesota or North Dakota, wherever your export markets are?

Mr. Brennan: Yes, we have import capabilities, that we could purchase power. When we have low flows, prices are higher than what they are when you got average flows, and we'd have to pay for it.

Mr. Graydon: How close are the lines? Where will the—line I and II, how close will line III come to it at the north, the most northerly tip?

Mr. Brennan: I don't think I can really answer it, but we have—in the north, we have all kinds of latitude up there to make sure there's adequate distances.

Mr. Graydon: I'd just like to ask a couple of questions on agriculture. If I understand right, you're willing to pay 75 percent of market value for affected land?

Mr. Brennan: For an easement, an easement being we want the right to use a strip of land. But for placing towers on it or have a line going over top, the farmer in that case still owns the land and can utilize it. If, in fact, we buy it, then we pay 100 percent of the price.

Mr. Graydon: When you get the easement on that land, what all do you get with that land?

Mr. Brennan: The right to utilize that land for our use. If we're going to put a structure of any kind on it, we pay more.

Mr. Graydon: Do you also get the mineral rights for that easement?

Mr. Brennan: I don't think anybody gets mineral rights unless it's already there. So I don't think we get mineral rights, but in the case of an easement.

Mr. Graydon: When we talk about the structures, Mr. Brennan, there is a set price for structures, I understand?

Mr. Brennan: Yes.

Mr. Graydon: I'd like to ask the minister—well, no, perhaps I'll stay with—is there any stray voltage from any of these—of this line of this magnitude?

Mr. Brennan: It's my understanding that most of the stray voltage comes from distribution lines and not the transmission lines.

Mr. Graydon: I would appreciate your confirming that because I understand that in some cases there's stray voltage up to three kilometres.

Mr. Brennan: I'd have to check it, but I—most of our problems seem to come from distribution.

Mr. Graydon: If this line does go across prime agricultural land—and I understand that, or I would assume that Hydro would take the shortest distance across any agricultural land—that they will limit the amount of towers on that particular land?

Mr. Brennan: Well, as I learned tonight, there's only three towers per kilometre.

Mr. Graydon: At the same time that I say that, because of the machinery today that we have, what height will that line be off of that agricultural land at the lowest point?

Mr. Brennan: I don't know, but—[interjection] The engineers don't—I don't know.

Mr. Graydon: Could you find that out for me?

Mr. Brennan: Sure, I will.

Mr. Graydon: If, in fact, we're not sure how much stray voltage there is and, as we know in agriculture, the technology that's used today is much different than it was in my dad's day and, in fact, in my day, that we have and we promote precision farming. And we do that for a number of reasons. We do that so that we're not double fertilizing, we're not double

feeding, so we have an economic benefit. We also look at an environmental benefit.

So, based—and so this will be for the minister, the former minister of Agriculture. Based on the technology that we currently use and the technology that will be developed for GPS positioning of surplus or deficiencies of agriculture, for spraying, for a yield differentials, and this will be affected—or will this be affected by any stray voltage?

* (21:20)

Ms. Wowchuk: I know that farmers use GPS, and I will have to look to the engineers for advice, as to whether GPS—whether there is stray voltage. My understanding is that on this line there isn't stray voltage, but we would have to check that with engineers.

Mr. Graydon: Madam Minister, would this have not been a consideration, considering that you were the former Minister of Agriculture? Would this not have been a consideration before you came to the committee tonight?

Ms. Wowchuk: You know, Mr. Chairman, we have to—we bring power through the Interlake, and people have been farming for years with those lines going through the Interlake, and I think that all of that is taken into consideration. You ask me whether we take this into consideration; we take a lot of things into consideration. We take into consideration is—that we have to have security of our supply. We have to have another line put in. We know we need another line to meet our demands on sales so we can generate revenue for this province. We take all of that into consideration and all of those things, when we—when lines are built, all of that is taken in.

But we do have to move the power from the north to the place where there are the most customers and that's in the south, and we have to find a balance. But we do have to find a way to move that power, and Hydro is developing lines to do that.

Mr. Graydon: I agree with the minister, that we need to find a way to do that, and I think that you would want to go on the shortest route. I think you would want to go where there's less population. I think that the minister would want to consider that agriculture has been the backbone of this province and only enhances the use of the hydro that we have today, and that there are alternative routes that she hasn't really paid a lot of attention to, except that maybe there were 35,000 letters that have been written.

I'm wondering how many letters she expects to have from the west side.

Ms. Wowchuk: Mr. Chairman, you know, I'm finding this quite interesting, how the members opposite say, on one side, they want to develop Hydro. Oh, they support Hydro so much, even though in all their years in power they didn't do a thing. They shut it down. They shut down the dam. They lost the sale that we had to get to Ontario. We lost that. They didn't do a thing. They didn't, and now our government has been working to develop Hydro and move it from the north. We had discussions on the east side. We made a decision that the line would go on the west side. Hydro is developing and will—has three routes picked out. A final decision will be made, and when the final decision will be made, all of those issues that the member talks about, whether it be agriculture or other issues, will all be dealt with, but we do have to build the line.

I've heard members opposite say that they recognize that we need another hydro line. They just can't make up their mind where they want to be on it. They just can't make up their mind, and I really think that they would much rather kill the line and go back to the '90s when we didn't have any hydro development, but we are moving forward and there will be hydro development.

Mr. Graydon: And a fine speech it was.

And what it really indicated was it doesn't really matter what the people of Manitoba consider the proper way to go, the minister is going to go wherever she pleases. And it doesn't matter what the opposition is on the west side of the province, she's made it clear that we're coming south with that on the west side, regardless of what the First Nations say, regardless of whether there's a boreal forest, regardless if there's a national park or a provincial park, regardless if there's agriculture that's going to be affected, the minister is going to do it her way. Well, that's fine. She can go ahead and do that but she'll wear that one going forward.

What I'd like to say to Mr. Brennan is—or ask Mr. Brennan, is about some of the wind power that we've talked about in the past, and at one time I asked you, Mr. Brennan, if you were prepared to subsidize wind power. Are you?

Mr. Brennan: We'd prefer not to.

Mr. Graydon: The question was: Are you?

Mr. Brennan: I think it's a function of export prices and probably today we probably are.

Mr. Graydon: Are you willing to develop more wind power to do the same?

Mr. Brennan: Our goal is to develop wind power if, in fact, it doesn't cost ratepayers money.

Mr. Graydon: Do you see that happening in this proposed wind farm in St. Joseph?

Mr. Brennan: Our goal is to purchase power at a price that allows us to break even or better.

Mr. Graydon: Can I ask you what that price would be, Mr. Brennan?

Mr. Brennan: We—when we went out and asked for proposals, we did have a price associated with that, and that—I could check that out and get it to you.

Mr. Graydon: When the original proposal was put forward, it went out to a number of different proponents, if I am right?

Mr. Brennan: It was available for anybody who wanted to make a proposal, and a good number of people made proposals.

Mr. Graydon: And if I'm correct, there were three companies that were short-listed?

Mr. Brennan: I believe that's correct.

Mr. Graydon: And they were short-listed for 300 megawatts?

Mr. Brennan: It ended up we had one company short-listed, at the end of the day, for 300 megawatts.

Mr. Graydon: Were the other two companies prepared to deliver 300 megawatts?

Mr. Brennan: At a price. There was a lot of them that were prepared to sell us power at a price we didn't find acceptable.

Mr. Graydon: The final company that was selected for 300 megawatts, is that company still in business?

Mr. Brennan: No. They—well, I guess, I'm not sure if it's still. It was an offshore company and I'm not sure if it's still in business or not. It went into receivership and the North American assets were sold to another company, and included in that sale was the rights to negotiate with Manitoba Hydro.

Mr. Graydon: Do you feel it would have been prudent to open that up for tendering?

Mr. Brennan: One of the problems we had—there was such a difference between the lowest price and the other ones that we thought that we—if we're going to be successful at all, we should continue on with the proposal we had before us.

Mr. Graydon: Can you explain to the committee tonight why it was downgraded from 300 megawatts to 138 megawatts?

Mr. Brennan: I think there's transmission costs that were going to have to be borne by both, in some cases Manitoba Hydro and in some cases the purchaser, and—or the seller—and so the purchaser and the seller both had some transmission to put in the system. If they reduced it to a lower number, the transmission costs went down significantly and helped them make the entire proposal more attractive.

Mr. Graydon: Has there been a purchase agreement signed?

Mr. Brennan: Not yet.

Mr. Graydon: Are you close to signing a purchase agreement?

Mr. Brennan: We're hopeful of signing one. Having said that, there's still outstanding issues.

Mr. Graydon: One last question to the minister. At the last committee, Madam Minister, you said that you were in negotiations with the proponent of this particular wind farm site. Have you reached an agreement with them, and how were you proposing to subsidize them to make them competitive?

Ms. Wowchuk: Mr. Chairman, it will be Manitoba Hydro that negotiates. I had a meeting with the company, but it is Manitoba Hydro that is doing the negotiations and working out the details, and as Mr. Brennan says, there is no purchase agreement signed yet.

Mr. Dewar: Just a couple of questions to Mr. Brennan regarding the time line of Bipole III, the construction costs of the project. It was raised earlier, mentioned earlier by yourself and others that the—it's been estimated that it be \$2.2 billion.

So my question is: In the upcoming fiscal year, what has Hydro—what amount has Hydro budgeted for the Bipole III project?

* (21:30)

Mr. Brennan: I'd have to get that number for you. I don't have it at the top of my—right at the top of my head. I don't have that number.

Mr. Dewar: It's been reported in the media by—that it's \$640 million. Now, I'm sure—would you know if it's that high or not?

An Honourable Member: For the upcoming year?

Mr. Dewar: For—in this upcoming fiscal year.

Mr. Brennan: No.

Mr. Dewar: Could you provide the committee, then, with the annual expenditures, that is, will be budgeted by Manitoba Hydro for this project from this current year until the completion of the project?

Mr. Brennan: Yes, I'll do that.

Mr. McFadyen: Actually, picking up from where the member for Selkirk left off, just in the chronology of the decision, Mr. Brennan, you had indicated that management's original recommendation to the board and through the board to government was the east-side route. The board and government took a different view and removed that option from the table in 2007.

Can you just indicate—the original plans for Bipole III as they existed on the east side, did that plan prior to 2007 contain new converter stations as part of the project?

Mr. Brennan: No.

Mr. McFadyen: And so were the converter stations added, then, in 2007?

Mr. Brennan: When we decided to come down the west side we included conversion equipment.

Mr. McFadyen: What's the technical reason for the requirement for the conversion equipment on the west-side route when it wasn't required on the east side?

Mr. Brennan: The—now, you're getting into an area that I am not very good at explaining other than if we launched—if the length of the transmission lines were relatively close to the existing ones we could parallel the two lines and use the two lines with the existing conversion equipment. So we'd be real good as long as we didn't lose any conversion equipment.

Mr. McFadyen: And of the 2.2 billion, how much of that is comprised of conversion equipment, the 2.2-billion current estimate for the west-side bipole?

Mr. Brennan: I did review that with a committee. So it's in one of my presentations before and we can dig it out for you though, but I think you'll have it somewhere.

Mr. McFadyen: Okay, and so, just on that point, to be clear then, it was technically possible to build a third bipole in the east side without conversion equipment, but it was an impossibility to make it work on the west side just because of the added length of the line and the inability to parallel on the west side versus east side. Is that a correct description of the engineering realities?

Mr. Brennan: Yes. Having said that, I should also add that there is a—still a major risk there if we have problems associated with conversion equipment, and I'm positive that all we have to do is get down the road to building a new transmission line without conversion equipment and I would have been faced with a recommendation to put more conversion equipment in.

Mr. McFadyen: Just in terms of the—in my understanding of the process, as you go forward with this project, when you get through the public consultation processes, environmental hearings, there's a requirement for a set of detailed engineering drawings to be prepared, descriptions of the project. Is that—am I correct in understanding that in the chronology of events that that has yet to happen in terms of this project?

Mr. Brennan: I believe that's correct.

Mr. McFadyen: And we've been advised by several engineers, including many who have retired from Manitoba Hydro, that they, as professional engineers, would never sign off on a west—on the proposed west-side project because of the massive engineering reliability deficiencies and other issues. Are you confident that there's a professional engineer in Manitoba that will sign off on a west-side bipole when the time comes?

Mr. Brennan: That issue has never been given to me.

Mr. McFadyen: And just to Mr. Schroeder: in terms of the role of the board, is there an obligation on the part of the board to take direction from the minister? In other words, following the September 20th, 2007, letter from Mr. Selinger, was the board obliged to follow that direction or does the board have other considerations that it has legal obligations to take into account?

Mr. Schroeder: I believe the board has an obligation to follow public policy direction, within the law, from the government. We have, in fact, from Crown Corporations Council back in the early 2000s—I was just looking for it, but I don't have it just in front of me—that they make it very clear that the appropriate public policy is: where government has a policy issue to provide to a board that it be done by proper communication, not through the back door, and that's exactly what happened here. And so I believe we do have that obligation, but beyond that, two things, I guess.

One would be: there isn't a corporation, public or private, in the world, I believe, that would risk the kind of money we're talking about going through a territory earned—or owned by a government which doesn't want you going there, and suggesting that somehow we would head down a territory where the Crown has said, we don't want you there. That's No. 1.

Number 2: I certainly believe that it was a correct policy decision in the first place. I believe that, no different from buying insurance on your business, your farm, your home, you don't expect the place to burn down, but you do pay the insurance each year. We don't expect necessarily that we're not going to have our export revenues, but we do know that they are based on the interest of governments to the south of here to set up their legislation to define what is green and what isn't, what they're prepared to accept and what they're not prepared to accept. And anyone who believes that these things can't happen hasn't read history, hasn't read what happened with Québec and New York when they stopped the hydro—clean hydro project cold. New York didn't get it, and we ended up with natural gas instead in New York. Those things—and you can use—see examples of that sort of thing all over the world.

And so we're talking about billions of dollars of revenue, over the decades, at risk against this cost. And it is a cost, there's no question about that, but I believe that it's a good investment.

Mr. McFadyen: Mr. Schroeder, I—you know, I don't think anybody is going to argue with you about what is at stake in terms of this decision. This is one of the reasons why we're dedicating as much time as we are to this debate.

We happen to be of the view, based on the advice of engineers and other experts, that the mistake you are making with the west side is on par with some of the great mistakes that have been made

in history, that it would be a mistake of historic proportions.

And I'm curious as to the—in the decision-making process in September of 2007, you've got recommendations from Hydro management to go east side. You've got recommendations from professional engineers, who have spent their careers analysing and working on these issues, who are saying east side is the only way to go. You have the input and advice of a range of experts, from Mr. Brennan on down through the corporation, who have worked on many, many such projects, all of whom are pointing to east side.

The decision was made by the board to override all of that advice, based on a letter from Mr. Selinger that compares the east-side forest to the Acropolis in Greece and the Taj Mahal in India. And on the basis of that letter, you direct the corporation to not run the line down the east side of the province.

* (21:40)

And I'm wondering if you can just tell me, in the face of all the professional advice and then the receipt of the letter from Mr. Selinger, why so little weight was placed on the professional advice and so much weight was placed on a letter that made comparisons to the Acropolis and the Taj Mahal when it came to the east-side forest.

Mr. Schroeder: Well, actually, there was professional advice. Mr. Farlinger, who is a well-respected engineer, who reviewed both sides, suggested that this was properly a matter for government to make a public policy decision. He warned that the east side could very well become a cause célèbre. We know that there were a number of organizations strongly opposed to the east side and they were prepared to invest in a fight with us.

So the fact that from a geographic perspective this is a shorter run, that it is better in terms of where the line comes down here, doesn't change the fact that we may never have been able to get down the east side in the face of that kind of a fight, and that has to be a realistic consideration outside of the public policy direction we received from government. If you add that on top of it, it was a decision that any properly—any board that properly considered all of the facts would have arrived at as unanimously as our board did.

Mr. McFadyen: Just my final question acknowledging that there was the prospect of a challenge on the east side and there is the prospect of

challenges on the west side, but I just wanted to get confirmation that the board considered the decision and that it was a unanimous decision. Every single member of the board as it was in September, 2007, supported the direction. Is that the case?

Mr. Schroeder: That's my recollection. I don't recall that it was in September, but we'll check the record and determine whether there—I don't believe there was any opposition.

Mr. Graydon: I have one question for Mr. Brennan. Mr. Brennan, since we pay the Province for the water that we use, high or low flow, we pay for the water, and we know that the pipeline companies that go through Manitoba pay municipal tax for the pipeline to go through Manitoba, would it be reasonable then to suggest that Manitoba Hydro pay a municipal tax going through agricultural land?

Mr. Brennan: I think—I'd leave that to policymakers, not me.

Mr. Graydon: Would you be prepared to pay municipal tax?

Mr. Brennan: If that's what the law is, certainly.

Ms. Wowchuk: I was just going to say that that would be a policy decision that would be made, and if that was the policy decision that was made, then the board—it would go to the board. But there's no such decision now.

Hon. Jon Gerrard (River Heights): Mr. Brennan, first of all, I'd comment that last night I was at a dinner, the Canadian Polish Congress honouring Professor Edward Kuffel, who was a long-time board member of Manitoba Hydro from 1979 to 1995 and made some major contributions in the science related to high voltage transmission. So just—he's worthy of celebrating as a Manitoban who's contributed quite a bit.

I want to move from that to an e-mail that you've recently posted on your Manitoba Hydro Web site as part of the exhibits in the affidavit from Andrew David Crombie. This is an e-mail which was sent to you by the whistle-blower on September 29th of 2008, and, you know, in spite of, you know, the rhetoric that has been sort of sprayed around about how confusing the concerns of the whistle-blower were, what is remarkable, really, about this e-mail is how clear this e-mail lays out the concerns that the whistle-blower had in terms of risk management at Hydro.

And one of the central aspects of this e-mail has to do with the lake level on Lake Winnipeg and where that lake level is held for the period immediately before the spring flood, say, about March, about this time of year. And the whistle-blower—and apparently, this is pretty important—if you've got it too high then you get too much loss of water because you can't use it. You get waste of water because you'll have to dump it because the water level is so high. And if it's too low, then you have a problem of if there's a drought, you can get yourself in real serious difficulty. And what she talks about—or the whistle-blower talks about in this e-mail to you, which was September 29th, is the optimum level of water at 713.7 feet—seven two feet, precisely—and that this is absolutely critical because if you go below a level of 712.9 you get into a point where you have a very high risk if there is a drought.

Now, what's interesting is this e-mail arrived on September 29th, which was the day before the relationship with the whistle-blower was terminated. Was this e-mail the reason for the termination of the relationship with the whistle-blower?

Mr. Brennan: We had a contract that ended at that particular point and I was making a point of saying that we were not going to give the contractor any further work.

Now, the issue that you talk about in terms of what level that we should provide for, for future years' water flows, has been an issue in Manitoba Hydro for, I was going to say, as long as I can remember, but clearly a long time. And, it—from a financial perspective, I was always one who favoured taking a little more risk there and getting the benefits of selling that power. Having said that, our people have definitely protected our system so that we have a very, very reliable system and clearly they're closer to it than I.

All those issues, by the way, we took very seriously before. That was, those type of issues were raised with us, and that's what we asked other people to look at.

We just didn't think we were getting value from the dollars we were spending with the contractor and didn't want to extend it.

Mr. Gerrard: What is interesting is the concerns that the whistle-blower raised in terms of one of the modeling systems which I gather is called Hermes. Is that the modeling system, or one of them, that Manitoba Hydro was using to look at the hydraulics

in Lake Winnipeg and to calculate what the optimum level was?

Mr. Brennan: It's my understanding the contractor had concerns with all our models.

Mr. Gerrard: The contractor certainly laid out the concerns that the difference between, for instance, linearity and linear models and non-linear models, that this was a pretty important aspect, and that what was being recommended before this e-mail apparently, was that the Manitoba Hydro operate at a level of 712.5. And as she points out, in this e-mail, and provides some graphs, that in fact, the level of 712.5 is quite a dangerous level in terms of putting you at rather high risk if there's a drought.

* (21:50)

The systems—clearly Hermes, and I guess there was another one of models had problems with them, it would appear, and that this recommendation for a 713.7-foot level was a critical recommendation. Now, I mean, the interesting thing is that since this report, you know, I can see that the spring of 2009 and the current year, you're keeping very close to the 713.7 levels in the pre-flood over the prespring runoff period. So, clearly, you seem to have adopted the recommendations of the whistle-blower in this September 29th e-mail. Would you concede that?

Mr. Brennan: Definitely not. I don't think there's anywhere we've accepted anything. But I'm not the best one to talk about hydrology and hydraulics, but I—nothing's been brought to my attention that we thought was something we should implement.

Mr. Gerrard: And yet the interesting thing is that you're following exactly her recommendations in how you operate the lake levels in the period since then, and—

Floor Comment: I don't think we're operating to that at all.

Mr. Chairperson: Mr. Brennan.

Mr. Brennan: I think that's the way it worked out, if that, in fact, is the case.

Mr. Gerrard: Anyway, one of the things that she clearly points out is that—or the whistle-blower clearly points out—is that the way that things were operated in 2003-2004, is that because the water level had been drawn down because power had been sold off, that the risk of losses was increased quite dramatically and that year in where there was a loss of almost 500 million, half a billion dollars, that had

the reservoir been managed so that the level at the end of the year had been 713.7 instead of the lower level, that, in fact, you might have run into a situation where you would have made more than \$100 million in revenue. Instead, that would be quite a powerful difference if that was the case.

Were you concerned that that would become public knowledge and that people would, you know, raise questions about the management of Hydro as a result?

Mr. Brennan: In all cases, we asked people to look at the way we operated during the drought. We asked consultants to look at that and they came back and told us that we're operating our system in a fashion that was appropriate, and I was confident with that explanation. There's no doubt that—oh, by the way, if you just make straight, simple mathematical calculations of the reduction in hydraulic generation, it comes out pretty quickly. Now, if all the water's still in the reservoir, that's something you got in the bank that you can use later, or if it's gone down too far, it's still going to cost you.

So, I was comfortable with the reports we got back on the drought. During the period of time we had that drought though, the situation of gas prices was just going the other way, and clearly, the drought was made worse by natural gas prices being high. But I haven't found anything from Manitoba Hydro's staff that gave me an awful lot of confidence in what the contractor was saying.

Mr. Gerrard: The analysis here in terms of what was happening, the fact that Manitoba might unnecessarily have lost hundreds of millions of dollars in revenue in 2003-2004, is clearly of concern to Manitobans. And I mean, clearly, it would be a reason to, you know, be concerned about the issues that the whistle-blower is raising. It would be also quite a concern should there be droughts moving forward.

I have here in front of me, the Lake Winnipeg monthly mean levels going back to about 1915, and I note, for example, the period 1930 to 1944 that the water levels were very, very low, and, you know, that's a 14-year period. It certainly raises concerns about if we had a drought for one year and what happened in 2003-2004, you know, what's going to happen if we don't address this, if we have a multiyear drought like we had in the 1930s?

This is clearly a major risk issue, and I suspect that that was the major risk issue, it would appear,

that the whistle-blower was trying to address. What has Manitoba Hydro done to make sure that, you know, if there is a prolonged drought like that, that you're not going to be in very serious trouble?

Mr. Brennan: We've had two consultants report, one specifically aimed at the drought. Like, Manitoba Hydro is a—if an issue is raised, we definitely—if it's in Manitoba Hydro's interest to change something, we should do it, and we will.

And in this case, we had two consultants look at it and they indicated that Manitoba Hydro's practices were appropriate. We now have KPMG doing the very same thing. So we'll find out.

Mr. Gerrard: The—can you tell us in terms of the reports moving forward, since this critically depends on the nature of the model, the accuracy of the model and the predictions of the model, to what extent, you know, KPMG has the capabilities of testing the accuracy of the models and to what extent it will be doing so.

Mr. Brennan: That was part of their mandate.

Mr. Gerrard: And so will KPMG—does KPMG have access to models and assessment approaches that will accurately determine, you know, which are the results and, you know, how Manitoba Hydro should be proceeding?

Mr. Brennan: It was—yes, it's my understanding they were looking at even getting further assistance to help them, but it's my understanding they're looking at everything.

Mr. Gerrard: Now, I tried to ask, and maybe you can clarify, in terms of what is your plan right now in terms of dealing with drought conditions?

Mr. Brennan: We're managing the system using the systems we have in place today, and if we go into a drought condition we're going to make sure the Manitoba load is taken care of first. We want to make sure we have a good reliable system in the event of a drought. We know for sure that if we get a serious drought, the cost to us is large. We know that, and so it's—I'm not sure if I answered your question or not, but—

Mr. Gerrard: Well, I mean, I think that the concern here is that, yes, the cost is large, but it needs to be managed extraordinarily well if we're not going to get into real problems, and one of the benefits of long-term contracts, as you've talked about, is that you can have good prices and long-term projections, but if you've got long-term contracts—in 2003, 2004,

I think you had to import power in order to cover those contracts.

And so what measures are being taken right now to cover off against just exactly such a drought contingency?

Mr. Brennan: Well, Manitoba Hydro's system is managed in such a way that we'll guarantee the—we'll guarantee—we'll make sure that the system is a reliable system to make sure we got the power. That's No. 1.

Number 2 is to make sure we do it at the most appropriate way in terms of cost, and I'm confident that we're doing that.

Mr. Gerrard: So you don't think we're going to get into a big loss again like we did in 2003 and 2004? What things have been changed to prevent that?

* (22:00)

Mr. Brennan: If you don't have that hydraulic generation, it's going to cost you. We're using average flows to charge customers for the power that everybody uses, and if we don't get average flows, there's a cost to that. We know that and we know that if we get into a serious drought for an extended period of time, that amount is very large, and we've known that for years, even when we had no equity in the company, we knew we had a problem. At least now we have, you know, some equity put aside to take care of it, but at one point we didn't and that was a major concern.

Mr. Chairperson: We've reached the hour of 10 p.m. As the committee previously agreed, is there leave of the committee to either allow for further questioning or for the Chair to call the reports?

An Honourable Member: Pass.

An Honourable Member: Call the reports.

Mr. Chairperson: Is it the will of the committee to call the reports? *[Agreed]* Thank you.

Annual Report of the Manitoba Hydro-Electric Board for the year ending March 31st, 2007—pass.

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

Some Honourable Members: Pass.

An Honourable Member: No.

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

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

Some Honourable Members: Pass.

An Honourable Member: No.

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

I believe that concludes the business of this committee. The Chair asks the committee members

to leave the reports you don't require on the table for future meetings.

The hour being 10:01 p.m., what's the will of the committee?

Some Honourable Members: Committee rise.

Mr. Chairperson: Committee rise. Thank you to committee members.

COMMITTEE ROSE AT: 10:01 p.m.

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