

Second Session - Fortieth Legislature
of the
Legislative Assembly of Manitoba
Standing Committee
on
Crown Corporations

Chairperson
Mr. Bidhu Jha
Constituency of Radisson

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MANITOBA LEGISLATIVE ASSEMBLY
Fortieth Legislature

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LEGISLATIVE ASSEMBLY OF MANITOBA
THE STANDING COMMITTEE ON CROWN CORPORATIONS

Tuesday, April 9, 2013

TIME – 6 p.m.

LOCATION – Winnipeg, Manitoba

CHAIRPERSON – Mr. Bidhu Jha (Radisson)

VICE-CHAIRPERSON – Ms. Deanne Crothers (St. James)

ATTENDANCE – 11 QUORUM – 6

Members of the Committee present:

Hon. Messrs. Chomiak, Swan,

Ms. Crothers, Messrs. Eichler, Dewar, Ewasko, Friesen, Jha, Marcelino, Schuler, Ms. Wiebe

APPEARING:

Hon. Jon Gerrard, MLA for River Heights

Mr. Blaine Pedersen, MLA for Midland

Mr. Scott Thomson, President and Chief Executive Officer, Manitoba Hydro

Mr. Bill Fraser, Chair, Manitoba Hydro-Electric Board

MATTERS UNDER CONSIDERATION:

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

Annual Report of the Manitoba Hydro-Electric Board for the fiscal year ending March 31, 2010

Annual Report of the Manitoba Hydro-Electric Board for the fiscal year ending March 31, 2011

Annual Report of the Manitoba Hydro-Electric Board for the fiscal year ending March 31, 2012

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

This meeting has been called to consider the annual reports of the Manitoba Hydro-Electric Board for the fiscal years ending March 31st, 2009, March 31st, 2010, March 31st, 2011 and March 31st, 2012.

Before we get started, are there any suggestions from the committee as to how long we are going to sit?

Mr. Ron Schuler (St. Paul): We went into Hansard and had a good look at the last Hydro committee meeting, and the committee at that time sat for approximately two and a half hours of which Manitoba Hydro took one hour and 10 minutes. We think that that's very long considering our new CEO was, I think, six weeks into the job, so he had a lot to say. And our concern is that it starts to look a little bit like a McNally Robinson reading hour, and, you know, out of a two and a half hours, one and almost an hour and 10 minutes of that is just getting the annual report read to us in Technicolor.

I would like to just point out to the committee, in contrast, last year's budget brought down by the government was approximately between 30 and 32 minutes, after which it was followed by 180 hours of Estimates. So we seem to think that after an hour and 10 minutes of hearing the presentation by Manitoba Hydro, we would like to see a little bit more than an hour and 20 minutes of opportunity for members to question and raise issues. This is a very important accountability mechanism for the committee and for those individuals who sent all of us here.

So I would suggest that we would probably not want to sit for the entire 180 hours that we sit in concurrence or Estimates, maybe sitting 'til 10 o'clock would be a reasonable time.

Mr. Chairperson: Any suggestions? Ten o'clock has been suggested. Agreed?

Hon. Dave Chomiak (Minister charged with the administration of The Manitoba Hydro Act): I don't dispute—I think the more information members opposite have about Hydro the better off the discussion is and the better off the future is for all Manitobans. So I don't question that. I know we won't go for 180 hours, but I suspect that four hours of discussion would be useful. If we're going to do that I think it's only reasonable, since we're considering one, two, three, four annual reports of Hydro, that we allow sufficient time for the president to make a presentation with respect to the overall situation—with respect to Hydro, and then we open the floor to questions and go from there.

So the usual procedure in my experience of this committee has been that the president makes a

presentation. I will—much as I'd like to, I will resist making any comments or statements in order to expedite the process and allow for a maximum of questions, and I think, that being the case, we should turn it over to the very capable president, let him make a presentation as quickly as he can, to allow for the—an overall—I've looked at examples of the presentation; I think it's very useful, it's updated, and then we can go to questions as long as the committee likes and—'til 10 o'clock is quite fine. If we finish earlier, fine. If we don't, we're prepared to come back at some other date to continue.

Mr. Chairperson: So it's agreed to continue 'til 10 p.m.? *[Agreed]*

Now, any suggestions in which order the meeting should be conducted? Yes, Mr. Schuler?

Mr. Schuler: Yes. Thank you very much, Mr. Chair, and as the minister's already mentioned, I think there'll be a few comments made by some officials and the presentation made by the CEO and then, if it would be agreeable to this committee, we would then ask questions on a global basis.

Mr. Chairperson: Agreed? *[Agreed]*

Does the honourable minister wish to make an opening statement, and would you like to introduce the officials from the Hydro utilities in attendance?

Mr. Chomiak: Thank you, Mr. Chairperson. I will not have an opening statement in—to—in order—expedite matters and to allow for a maximum number of questions to be asked.

We're joined today, and very pleased to be joined by the chair of Manitoba Hydro, Mr. Bill Fraser, and the president and CEO of Manitoba Hydro, Mr. Scott Thomson, and only to indicate that I've had the pleasure of working with these two gentlemen since they both came on as both chair and president. And I'm—feel honoured to have the opportunity of working with these people at Hydro and I think the future of Hydro is in very capable hands, given these individuals and their colleagues' performance that I've had the occasion of working with them. So, thank you, Mr. Chairperson.

Mr. Chairperson: Thank you.

Does the critic of the official opposition have an opening statement to make?

Mr. Schuler: Thank you very much, Mr. Chair. We're very excited to be here and have the opportunity to not just hear a presentation from

Manitoba Hydro but ask a lot of very important questions, and look forward to a very full and a complete dialogue with the officials from Manitoba Hydro, so we look forward to the presentation.

Mr. Chairperson: Thank you, Mr. Schuler.

I understand the representative from Manitoba Hydro-Electric Board wishes to include a PowerPoint presentation as part of their statement to the committee.

Mr. Scott Thomson (President and Chief Executive Officer, Manitoba Hydro): That's correct.

Mr. Chairperson: Thank you. So, is there leave from the committee to allow the PowerPoint presentation? *[Agreed]*

Mr. Thomson, go ahead.

Mr. Thomson: Good evening, Mr. Chair, ladies and gentlemen. It's my pleasure to be here for my second meeting with the committee. As was previously noted, I—the first time I sat in this chair was about six weeks into my role, so my purpose in the presentation is to—trying to bring you up to date on a number of items and just get you current on things, as opposed to going back through the annual report in detail.

* (18:10)

I've provided an overview in the package and I'll move forward and just start right in. So in terms of the high level numbers with the—bringing into service of the Wuskwatim Generating Station, we're up to 5,700 megawatts of installed capacity in the company. About 98 per cent of all the power we produce is hydroelectric power. So notwithstanding that we've got about 500 megawatts of thermal generation. The bulk of the power that we produce is hydro power and wind.

Madam Vice-Chairperson in the Chair

We've got 15 generating stations and two thermal generating stations. Total employment complement is just north of 6,400. About 6,300 of those employees are in the utility proper with the balance in Hydro utility services, the meter reading arm, and Manitoba Hydro International. And as at the end of February our customer count was sitting at about 548,000 electric customers, half of which also take natural gas service. And we continue to export into three primary wholesale markets, the US

Midwest being by far in a way the largest and to the east and west of us into Ontario and Saskatchewan.

Just to give you a little bit of orientation to the major facilities on the system for the members new joining us this year, the bulk of our hydro generation is on the Nelson River system, about 80 per cent of what we produce is in the north. The balance in the—on the old Winnipeg River system which was originally developed and then—I don't have a laser pointer and I apologize that it's kind of an eye chart to see—but we've got thermal generation in Brandon and in Selkirk. And then, in the package that you'll have, the major transmission lines are located reflecting the transmission capacity to bring the power from the north to the south.

Overall we continue to be in a position to provide our customers with the lowest average retail electricity prices in North America and we provided comparisons here to the—across the 10 lowest jurisdictions in North America. This is on a weighted average basis and includes all of the customer classes and the comparisons were based on US Department of Energy source data as of last summer.

Mr. Chairperson in the Chair

A bit of a history going back to the beginning of the last decade. We've been in a position over that period to maintain rates about rate adjustments below the increase in the Manitoba consumer price index. And these rates are up to and including the current proposed rates that are in front of the—thanks Randy—in front of the BC Utilities Commission or, sorry, the—old habits die hard—the Manitoba Public Utilities Board. I've got a slide later in the deck that provides a little bit of detail on that.

And, again, just for comparative purposes, I've got—the next two slides deal with average monthly billing on—at the residential and commercial level, and we differentiate between those customers that heat with electricity, space-heat electricity, and or natural gas. So this would be a typical customer in a small, medium-sized home that uses electricity that does not use electricity for space heating. And there's a small differential in Québec, slightly lower, and the balance across the jurisdictions we enjoy a fairly significant price advantage. And, again, this reflects the current rates that are in effect.

On a space-heating customer who uses electricity for space heating we're virtually in a dead heat with Hydro-Québec and, again, we enjoy a significant cost advantage over the remaining

Canadian jurisdictions. The numbers start to diverge when we get into commercial and industrial, and although I don't have an industrial bill comparison, it reflects the same trending here. And, again, commercial customers and industrial customers enjoy a significant cost advantage in the province of Manitoba.

The—this next chart, again, updated for up to and including the proposed rate increase as at April 1 of this year, and going back to the changes since 2005, on a cumulative basis there all across Canadian jurisdictions were seeing the major electric utilities facing a number of the similar cost pressures that we are and the requirements to invest in infrastructure.

On a relative basis, our rates, if we set the current rate index at 100 for Manitoba Hydro you can see how we rank relative to the other jurisdictions; including the major hydro jurisdictions in Canada, being BC and Québec. And then when you get into our neighbours to the west of us and down east where there it's predominantly thermal generation, you can see a significant cost advantage for our customers there.

Switching briefly to natural gas, the dramatic growth in non-conventional gas production in North America has created a situation that we haven't seen since the late 90s. The great benefit to our customers is that it's now as cheap to use natural gas as it was over a decade ago. It creates some challenges for us on our, on the electric side of our business, and we see in the near term a continuation of some of the forces in play that will tend to keep natural gas prices quite economic for gas-space heating customers.

As at the beginning of February, gas in storage was about 16 per cent higher than the five-year average levels, and that's been somewhat offset by the cold that we've experienced this winter across North America. So demand is—has been high. I think off the lows that we saw last year where NYMEX pricing was down in the \$2 range. We've seen it recently back up in the high threes at Henry Hub and AECO pricing is slightly less than that, but we're—we've seen a fairly significant bounce back over the past six months in natural gas rates. Notwithstanding, that the Centra quarterly gas price is at 10 cents a cubic metre, and again we haven't had it low since 1999.

Just an update on current and forecast financials. And the forecasts are based on our most recent integrated financial forecast that was published at the end of 2012, we'll update that again this year. And I

will have to mention one adjustment to some of the trend numbers later on. But our investment in fixed assets: property, plant and equipment, our net plant in-service has continued to grow and construction in progress has been increasing as has the financing to support that growth. We continue to add to our equity base through retention of earnings, but where you will see in the financial ratios of here, the debt-equity line, the final numbers for fiscal '12-13, we're in the process of compiling them now. We are expecting to maintain the debt-equity ratio at 75-25 this year which is our long-run target ratio. And then as the capital program progresses and ramps up we'll see a decline in the debt-equity ratio over the next decade, and then a recovery over the following decade anticipated.

*(18:20)

Earnings projections: the projected earnings for the most recent fiscal year are in—are consistent with what we have achieved in the prior fiscal year. There is a—there's a caveat on that. The—in the recent rate case that we had filed we—there had been a 1 per cent rail—rate rollback that had been previously ordered. And while we didn't reduce the rates charged to customers, the revenue accumulated as a result of that has been held in a deferral account which will it—will grow to, we estimate, about \$36 million by the end of the most recent fiscal year. Depending on the outcome of the rate case and how the PUB disposes of that matter, that will have an impact on our ability to achieve that \$60-million forecast earnings level. If it's allowed, I think that based on what we saw through the month of March and with demand, that we'll—we should come reasonably close to that target. If some portion of that is not allowed, then that will have a direct—a 'det'—direct impact on our earnings.

So, very briefly, what was—what had been applied for in the most recent general rate application: maintenance of the 1 per cent electricity rate rollback that I referred to in rates and an inclusion of that in our revenues in the most recent year, and then as we move forward, we had also been granted interim rate increases last spring and in September that we've requested to make final. And one thing I would point out there is, had the—we had originally applied for a 3 and a half per cent rate increase last April and one for April of '13. Had that been granted, that is equivalent to what the two stepped rate increases will achieve in revenues. So although we—because we didn't achieve the full 3 and a half per cent starting April 1, a requirement to

generate equivalent revenue, we needed to increase it by higher overall in the year.

I think I've covered what's on this slide already. At the end of January, we filed a rate application for the natural gas business. We're requesting approval of an overall rate increase of 2 per cent effective August 1st of '13. As noted, the last general rate increase for gas was 0.8 per cent in—two fiscal years ago, and we didn't increase rates in '11-'12 or '12-'13. So there's been a fairly sustained period with no rate escalation there other than cost of gas adjustments.

And then this final slide here provides an outlook of our retained earnings or equity base as we move forward. And one thing that I will—I'll point out in—there's an asterisk over 2015, and as I'd mentioned to the committee last year, the accounting standards setters have been deferring and deferring and deferring the requirement for rate regulated entities to adopt international financial reporting standards. It's a pretty significant issue for us in that the International Accounting Standards Board has a different set of rules for how we treat rate-regulated assets. Amounts that we invest that have value over a period of time, but the international standards require that they be recognized or expensed in the year that they're incurred, and the most significant element of that is our Power Smart investments. So when we provide incentives to a customer to retrofit their home, for instance, there's going to be value to both the customer and to the utility over an extended number of years, over the life of that, you know, the related equipment. But the international rules currently, as they're promulgated, require that we expense that in the year incurred, and so we currently have about \$335 million of investment in our—in those types of assets in our financial statements. And we amortize a portion of them each year. We would have to recognize that and write it off to retained earnings in the year that we adopt IFRS. Currently, and this—these—this slide was based on IFF12, so we're anticipating that the board and the company will take advantage of a recently announced further one-year extension, and so that dip that you see in retained earnings would be advanced or pushed back one further year. And the industry continues to work with and lobby for a reconsideration of that accounting treatment, and I think that we're making some headway there across North America, that there's a strong push to allow rate-regulated entities to continue to recognize those assets because, in fact, they do have value and it doesn't really make sense in our business to be writing them off.

So at a high level, and we talked about this before, but the challenges that we face—and they're not all bad—the demand for energy is growing in Manitoba. We have to plan for and be ready to add new capacity as it's required. Like many companies in our industry across Canada and, in fact, North America, we're faced with the requirement to renew plant that was put into service in the '50s and '60s, and that's going to put pressure on us at the same time that we're, you know, we're planning for and building new capacity. In recent years we've experienced a decline in export revenues. Two big drivers behind that—and I've got a little bit more information in a later slide—but some decline in the actual available power to export, because as our demand grows we grow into our capacity, and what has been widely reported: the reduction in spot market pricing in—over the last couple of years have had a significant effect on us. And we've got to deal with these things while maintaining reasonable rates for our customers and maintaining the financial health of the company as we move forward.

And the next chart really outlines what we're seeing based on our current load forecast and the resources that we have available to meet the growing demand over time. The crossover point, as noted in the graph, is currently 2022. So based on current installed assets that we have, our ability to utilize demand-side management, the wind resource that we have under contract, our thermal generating capability and our import capacity, we're going to run out of capacity, we currently estimate, by 2022, and that could be advanced a year or deferred a year depending on economic activity in the province, or if industrial load comes on, which it tends to do in fairly sizable chunks, that can have a significant effect and it could even accelerate. If we get new economic activity like that, it could bring things forward a couple of years, so we have to be flexible and be in a position to respond to that. But on balance, our load projections are that the average rate of growth in demand for electricity in the province will be between 1.6 and 1.7 per cent per year over the next decade, and that is equivalent to approximately 80 megawatts of capacity or about 450 gigawatts of energy per year.

The new generation that we're contemplated—contemplating utilizing to meet that need, we've—we commissioned the Wuskwatim facility this past year, which brought 200 megawatts of new power on, and current plans have us starting construction on Keeyask in the summer of '14, with an in-service

date of late 1919—or, sorry, 2019 for first power, and Conawapa with a construction start in 2016, and that's a nine-year build as we look forward.

* (18:30)

We had updated our cost estimates for the—for Keeyask and Conawapa this past year and we've—based on the planned in-service dates and for planning purposes we've added a management reserve to deal with the—any increases beyond projected CPI growth and financing cost escalation over the planned time frame of construction.

So I've got a couple of brief updates on the projects. As mentioned, Wuskwatim we've got all three units in service now. The main contractors have demobilized from the site. There's a few minor subtrades that remain on site completing residual work items and we expect that to be complete by 2013. Site decommissioning and environmental rehabilitation will continue through this summer.

The—and I think that's—in terms of Keeyask, we've developed Keeyask in partnership with the Keeyask Cree nation partners, the TCN, War Lake, Fox Lake, and we've—pending all necessary approvals as I'd mentioned, we expect to start construction 2014. We filed the environmental impact statement last summer. We're currently in a process to finalize letting of the contract for the civil—the general civil contractor and, of course, that would be subject to the ultimate approval and licencing of the project. The—we anticipate the Clean Environment Commission hearings to start in September and run through November of this year.

We've been in a position to accelerate and, based on the learnings that we had on the Wuskwatim project, to take certain tasks off the critical path for the Keeyask project. So the—some of the lead-in infrastructure, the access road and pre-camp construction work has been undertaken. Licencing and permits for this work were secured in 2011 and work commenced early 2012. We've successfully engaged the Cree nation partners and over three quarters of the workforce is—has been Aboriginal hires. The construction work that's been ongoing to date has been through joint ventures between the Cree Nation partners and their joint venture partners.

As I'd mentioned, Conawapa were—current plans have—if everything moves forward according to plan we would be looking at an in-service date and first power in 2025. Environmental studies including Aboriginal traditional knowledge are being

undertaken to fully understand the impact that Conawapa will have on the environment, both physical and social. The EIS will be developed based on these understandings and it's currently scheduled to be filed in December of 2014. It will identify potential effects the project may have on the environment and people, and determine ways to avoid, reduce or mitigate the potential negative effects and implement follow-up and monitoring programs.

We've got process agreements in place with five Cree nations in the vicinity of Conawapa to participate in project planning and negotiate adverse effects agreements and a project development agreement. These process agreements provide funding to engage legal, technical and business advisors so that the communities are fully informed and the implications of proposed development arrangements prior to reaching a decision on whether they'll support the licencing of the project or not.

Because the Conawapa project will be located within the Fox Lake resource management area, we've—we had previously executed a memorandum of understanding with the Fox Lake Cree Nation which recognizes their unique circumstances and has them taking a leading and significant role in the project development vis-à-vis the other in-vicinity First Nations.

And, as I mentioned to the committee last year, the development plans for these three generating facilities had been modified to take into consideration some of the input from the First Nations and to minimize the amount of flooding. I thought this was—would be a good picture to show the committee. This is looking downstream towards where Conawapa's generating station will be built, and you'll see a small island in the middle of the river here, so just beyond that is where the dam will be built and the powerhouse on this side. But the—this is pretty representative of the terrain and, in fact, from the river to the top of the embankment is about 115 feet. So the forebay will be largely confined in the—within the banks of the existing river. There'll be some small tributaries that are upstream of the forebay that will also have their water levels rise but only about a half a square kilometre of flooding beyond the banks of the river will take place.

I'd like to spend the next few slides just discussing our engagement with Aboriginal communities. Hydro has significantly evolved the way that we approach hydro development and the

relationships that we've got with First Nations. We believe that today's approach results in better defined projects to supply the growing demand for electricity and projects with reduced environmental impacts. Ultimately that should lead to lower compensation costs if we can accommodate and build in those considerations up front. By engaging the local communities we obtain the Aboriginal traditional knowledge that I was speaking of before that enhances project planning and monitoring. And this approach also levels the playing field, so to speak, to ensure that the affected communities have the resources available to them to properly engage in the process up front and then through the licensing and permitting processes.

Over the years we've incurred substantial costs to address impacts of past development. The total expenditures are nearing a billion dollars in compensation and mitigation measures that have taken place. So we think that through today's more proactive approach we'll be in a position to reduce the actual occurrence of adverse impacts and ultimately we'll get it right up front and that should pay dividends down in the long run.

Under the Northern Flood Agreement we entered into comprehensive settlement arrangements and, consistent with the evolving regulatory licensing expectations, Hydro makes available resources for potentially affected communities and organizations to make informed decisions. Process funding is provided to enable these communities and organizations to consult and participate meaningfully in the design and development of major plan projects. Our expenditures to date include costs related to the project planning community meetings and consultations which have been extensive, environmental and regulatory matters, land use studies, training and employment, and business development opportunities and arrangements with local bands, much of which is geared at increasing capacity in those communities so that they can participate in construction and ultimately running of facilities. And although the costs are not insignificant in relation to the overall size of these projects, they're relatively small in percentage terms.

* (18:40)

We've entered into agreements, in fact, with most of the impacted communities where we do business. We've, as I've mentioned, we've got comprehensive implementation agreements with four of five First Nations under the Northern Flood

Agreement. We've been working really quite effectively with Cross Lake, which is the one community that didn't enter into an implementation agreement with us. And, as mentioned, the costs as at March of last year were about \$950 million.

We've placed a strong focus, corporately, on development of the capacity with the Aboriginal communities, and we've developed and evolved a number of programs, including a pre-placement training program and other programs, bursaries and awards. Currently, Hydro employs 17 per cent of our workforce is Aboriginal overall, and about 42 per cent of our employees in northern Manitoba are self-declared as Aboriginal. So achievement of the employment targets was largely the result of targeted recruiting efforts in the programs noted, which were designed to attract and retain qualified Aboriginal candidates into Hydro's workforce.

We allocate about \$150,000 a year to for Aboriginal students pursuing education in areas including engineering, technology, IT and business. And we also work with a number of umbrella organizations to ensure that they're aware of the various programs that we have available to their members.

Another area where I think that we've had pretty significant success is in the business dealings that we've had with the Aboriginal communities. And going back over the last decade, in fact, we've, since 2002, we've placed a total of just over \$700 million in business with Aboriginal businesses. It's averaged about \$70 million per year with some variability.

For over the first three quarters of this year, we've let 69 contracts with a total value of \$35 million. And we anticipate that some of the front-end activities on the major developments that we're undertaking up north, there will be—we'll be contracting directly with the community partners, and we're really looking to try and maximize the benefit to—in the local communities and the economic value to them.

This is a comparison and provides a bit of an indication of the ramp-up in our capital program over the next couple of years. I've highlighted the major capital—the major project initiatives here, and then on the final line, the all other capital, which includes the rehabilitation of our plant and customer attachment and growth capital generally, and, as you can see, it is significant, and it's growing. And I'll touch on a little bit about the rehabilitation program that we're

putting in place, but those are some numbers there for your reference.

Focusing on a couple of the major initiatives: Bipole III project, which I know you're all familiar with, is a reliability-and-security-of-supply initiative to bring power—reinforce our system to bring power down to—from the north to the south. The Dorsey Converter Station where the power is converted back into AC at the south end of the system is vulnerable. Seventy per cent of northern generation passes through this single critical facility, and given the proximity of bipoles I and II to each other, they're both vulnerable to a common outage. So the Bipole III project is geared to address that weakness in our system, if you will.

It's—we initiated the environmental hearings last October with the CEC. We had anticipated originally that those would conclude the end of November but, because of a number of proposed routing adjustments to deal with some sensitive areas, the hearing had been adjourned. And additional information was filed at the end of January then with the hearing recommencing at the beginning of March. So, we anticipate now that, if the recommendation comes through, that we'd be in a position to obtain a licence by June of this year and commence construction in July. That will put pressure on our 2017 in-service date but we still anticipate that we can protect that date, provided we get the licensing in June.

I thought I'd just highlight, in terms of some of the economic value to the province of these initiatives, and I'll compare that to the base ongoing employment that's driven by our operations year to year. In terms of—I mentioned we have about 6,300 employees in the utility proper. And, in addition, the ongoing capital refurbishment and the contracting work that we do with the business community, engineering community and contractors, adds about another 3,700 full-time equivalents in—and then there's an additional 6,600 of indirect and induced. So we're generating annual employment on the order of 16 to 17 thousand person-years. The project construction for each of the initiatives will be in addition to that; in total, across the three projects, Bipole III, Keeyask and Conawapa, almost 19,000 years of direct employment and another 12,000 years of— person-years of indirect and induced.

I want to talk a little bit about exports. Exports are critical to a hydroelectric utility such as ours. They play a key role in our business model but there are a number of misconceptions about the role that

they play and the position within that business model. What—a lot of what we've heard in the press in—over the past year, is telling. There's this concept out there that we build hydro power generating stations solely to serve the export market, that we're subsidizing US customers, that there aren't profitable export markets for our power. And they're just inaccurate. And I think that, as we get behind the economics of our system, I think that should become more clear.

And I'll—I used this slide at the Chamber of Commerce last year and I think it's worth spending just a couple of minutes on here as well. When we're planning for the needs of our customers and we do our long-range planning, we develop and plan the system for reliability: the lights have to come on; the power has to be available. So the resources that we build and/or contract for have to be reliable and available to us when they're needed. So, we have to be able to meet demand in low-water years with the facilities we have. And, consequently, because we're building for the low flow, and what you see in the graph here, the dependable flow is the lowest level that we've realized over the last hundred years, and this is our hydrological record that we utilize.

*(18:50)

So in most years we're going to have more available water than the system's designed around, and the sale of the surplus in the export markets generates revenue from this inevitable system surplus; the alternative to that is to spill water.

Selling electricity to off-system customers is virtually a requirement for any hydro-electric utility, due—just due to the nature of its operations, and it relates to managing the capacity and the demand balance. Even if we're able to match perfectly the energy capacity of our generating stations to the peak load in Manitoba, in—again, in most years we would have surplus electricity to sell. So—and again, the reality is that we can't match electricity growth in nice, neat, 80 megawatt blocks, or at least we can't do that cost-effectively over time. So when we do bring new capacity on, it tends to be lumpy and we tend to have some available surplus for a period, a year, until we grow into that demand.

And, over the last four decades, the company has been pretty effective in shaping that upfront, available surplus and selling it forward into the market. So there's really two different kinds of sales arrangements that we enter into. We'll look out and, for instance, if—when Keeyask is built and when it

first comes on-stream, we'll have a number of years up front where there will be some available firm surplus that we can go out and sell to an export customer. And that will be based on some of the dependable flow that you see in the graph here, and then the surplus power, surplus energy that's available beyond that, we'll sell into the spot market. And we can shape that in the near term to some extent, because we know what's in our reservoirs and we can plan near term and we do some seasonal shaping around that.

So—but those sales tend to be at the spot market prices, so of our total exports we're—about 40 per cent of what our revenue base has generated on export sales from firm power sales—and the balance is about 60 per cent right now—goes into the spot market, and that changes over time as we claw back that firm capacity for our domestic requirements. So, in fact, exports do help maintain low rates for our customers and we've—we benefitted greatly in recent years on account of that.

Another area that people tend not to think about too much is the benefit of the interconnections that we have with the export markets. In fact, we will need to build a new interconnection, a new 500 kV interconnection with the US by the time Keeyask comes on-stream, and Minnesota Power is currently in the planning stages of building the line on their side of the border. That will take the power south and allow us to sell this—any of the surplus power that's generated that way, but in low-water years that's additional capacity that we have available to import power into the province. So, absent having those contracts in place, the Americans won't build additional transmission capacity on their side of the line and we gain that that's a part of our planning that we do, our long-term planning as well. We're also able to use that to optimize the system on both sides of the border. We're a winter-peaking system, we're essentially a heat—a heating peak, and in the US Midwest market that we sell into, there are summer peaks. So they've got additional capacity in the wintertime that we draw on and we contract for through seasonal diversity sales, and, similarly, they're looking for power from us in the summertime to meet their peak requirements when we have available power to sell. So the amount of investment and infrastructure on both sides of the border has allowed, you know, we can reduce the overall requirement on both sides of the border.

Over the last decade, in fact, if we look at the breakdown of our revenues, commercial industrial

electricity revenues were \$6.2 billion, export revenues were \$5.2 billion and residential customer revenues were 4.3. If we didn't have the access to that market and—our residential customers and our commercial-industrial customers would be paying more for their power. And, in fact, that's really at the heart of the recent rate-increase request, is the fact that we've seen a decline in the spot market sales for electricity. So that subsidy that we've enjoyed to our domestic rates has reduced.

And this is just a graphical representation of average export sales prices, firm and short-term or spot sales. There has been an uptick more recently. We're—on the short term—in the short-term market it's strengthened somewhat to about \$25 to \$26 a megawatt from what we saw last year. But our available volumes have declined further, again, as we've utilized power for the domestic market.

In terms of the export outlook we're able to sell any surplus power into the US Midwest market. There's a capacity requirement in MISO of about a hundred and ten thousand megawatts versus our 5,700 megawatts installed capacity. So any surplus power that we can generate has a market available to us. There are some limitations around transmission capacity and capability, and there are some market rules. But we've worked—we—the strategy that we've employed has been to lock up the transmission rights on the US side of the border and control as much of the firm transmission in the US as we can on the US interconnection. So we're in a position to sell all of the surplus power that we do have available.

There continues to be a demand for long-term clean hydro, and one of the things that we hear every time we go down and meet with our customers in the States is that because they have a multitude of sources of supply—most of it's thermal generation, gas and coal—they've got a good wind resource, but wind needs to be firmed and we can act as a battery for them. In effect, when they've got surplus wind it can be utilized here. We can buy it very cheaply over night and use that here. We can store water behind the dams and then we turn around and sell it back to them at night at—or during the day, I should say, at higher prices.

So, in fact, the Americans are really only interested in hydroelectric resource from us and it's a means of diversifying their portfolio of supplies. So they're not going all in. You know, they're—they've got their cornerstone supply, but they can take a portion of their portfolio as power and they're willing

to pay good prices for it for firm power going forward because they can have price certainty around it. They're not at the vagaries of the gas market and the volatility in the gas market, and they're also facing the retirement of their coal fleets.

In the near term we've seen, you know, with the slowed US economy, demand overall has been down, which is what's driving the softer prices, and low natural gas prices has made it cheaper in the near term to generate electricity with natural gas.

* (19:00)

We've—as I know you're all aware, we've got committed sales agreements with Northern States Power, Minnesota Power, Wisconsin Public Service, and the firm commitments that we've booked are valued at about \$7 billion over the term. About \$5 billion of that is subject to the construction of Keeyask. So the timing of the start of some of these new contracts that we've signed dovetails nicely with the in-service dates of Keeyask and Conawapa, but it will also be contingent on us moving forward with those projects.

And then, over the long term, based on our development plan, we anticipate substantial revenues over the next 20, 30 years from export sales, including the spot market sales that we've got and the anticipated surplus power that we'll have in an average year as we move forward.

In addition to what we've got firmed up in contracts, we've entered into a term sheet with Wisconsin Public Service for up to an additional 500 megawatts of capacity and additional power beyond existing contracts. So the potential rollover of existing arrangements that we've got in place, provided those firm up into contracts, we will require this new US interconnection as well. And, currently, Minnesota Power is committed to building a 230 kV line that's part of what they've got as a firm contract with us, but they're working to get a 500 kV line built, and that's what we want because that will maximize our access to the US market and for all of the potential sales that we have down the road.

We, also—you know, we're mindful of the Canadian market, too, although it's not as deep. We have, in fiscal—the most recent fiscal year, about \$41 million of our total extraprovincial sales have been into the Canadian market. About half of that is with SaskPower, about 40 per cent into Ontario and the balance into Alberta. Saskatchewan is going to

require about 4,100 megawatts of additional capacity by 2030, and while they're energy rich, and they're going to explore all of the opportunities that they have available to self-generate, much of the investment that they're making in capacity will be around coal and clean coal and, again, it makes some sense for them to have some portfolio diversification as well.

So we have the ability to sell some incremental power into Saskatchewan today. We've entered into an MOU to explore those efforts. I think we're getting close to our first firm sales commitment with Saskatchewan and, again, as Keeyask and Conawapa come on stream, that will create additional potential. Will—there will be a requirement to build additional transmission, but provided that that's underpinned by firm sales contracts, it's cost effective and beneficial for us to see that that gets built.

This next graph shows that the recent decline in net—or in extraprovincial sales net of water rentals, fuel and power purchases, in total our extraprovincial sales are still in—on the order of \$300 million gross. But after the—after water rentals and other costs we've seen a net decline, and as we—as some of the new contracts come into play that we've signed, we'll start to see that turn around and recover in 2015, and then as we bring the additional capacity on and the ability to serve the bigger export contracts that we've got, that's when you see the steep increase in our outlook.

I think I already covered the contents of this slide. I'll just highlight that the planned in-service date for the Great Northern Transmission Line, which Minnesota Power is in the planning stages and permitting stages for right now, will have an initial capacity of 750 megawatts. So we're looking at 250 through Minnesota, 200 with Wisconsin, and then there's a number of co-ops that we—we're in discussions with right now that can pick up the balance of that capacity on the line. Ultimately, that can be increased to 1,100 megawatts using that initial line construction, and as importantly as I talked about before that line will increase our extension cord going the other way as well, which is an important consideration for us in our long-range planning. This is the route corridor that's being explored. The line will go from the Riel station that's under construction right now on the east side of Winnipeg down to Duluth and ultimately they may end up extending that line further and into Wisconsin, but that would be based on—you know, that would be decisions that they take. But again that

would be beneficial to us if they do extend it—the capacity further.

In terms of permitting key regulatory reviews include the Clean Environment Commission hearing this fall that I'd mentioned for Keeyask, the NFAT process for the development program which we understand that terms of reference for that will be issued to the PUB fairly soon because we anticipate making our filing in August and that would likely result in a hearing commencing sometime in January of next year, and following that the Lake Winnipeg regulation final water power act licence we're going to have to go to the Clean Environment Commission for that, and again one of the factors in our—in the new export contracts that we've signed we need final licensing as well. So it's a pretty heavy regulatory agenda over and above our regular biannual rate-setting process as well, and it tends to draw on a lot of the same individuals in the corporation to do that.

We anticipate NFAT will cover Keeyask, Conawapa, the new interconnection on the Canadian side of the border to the US, DSM and other renewable options, and it will consider the full range of energy supply options. So we've got a number of portfolios that we've evaluated. The reference case is actually gas. There will be combinations of gas and wind, gas and some hydro and ultimately the preferred development plan which will be the Keeyask-Conawapa plan with the 500 kV line connection to the US. It'll cover all perspectives: economic, social and environmental, although there will be individual environmental reviews for each of the projects that will be going in more depth. But at a high level there will be environmental considerations, considered risks and ranges and there'd be probability analysis around each of the portfolios as well. Don't worry I'm getting close to the end here.

One of the things that, you know, keeps coming up, and again that's why I wanted to assure the committee that the NFAT review and the portfolio analysis that we've done does contemplate actually as our reference case natural gas combined-cycle generation as the first supply option, and everything that we've done we've kind of compared to that. So—and a number of people have suggested that we should be focusing on that and, in fact, we will. This will be examined at length through the NFAT process and be tested. We will have built in the current outlook on natural gas pricing which is reflected here, and this is based on US EIA data as of last summer and based on Henry Hub's spot prices.

But it's in—it's based on real 2011 dollars and there's—while there is some variability in the range of estimates that different forecasters have provided it does trend back up.

*(19:10)

And, you know, there's a number of important fundamentals that I think that will come into play; increased demand for gas as a fuel for electric generation, for coal replacement, I think is going to be a significant piece. And there's a lot of coal capacity that's going to be retired over the next decade in the US. There's permitting processes being under way right now to develop LNG export terminals. Gas, as a transportation fuel, is gaining more prominence in Canada, in BC-Alberta corridor and the Ontario-Québec corridor. And it's been in use in—particularly in the US southwest for some time, for light duty applications, but we see growing demand for it as a transportation fuel.

You know, there's ultimately, we don't know what's going to happen in the US, in terms of emissions response and I—whether a carbon-pricing model will be undertaken. But in meetings that we had this spring in Washington, where we met with the energy subcommittee chair and a number of the members of the Senate that are involved, there is—there's clearly a desire in the US to see that gas prices aren't suppressed, that the full economic potential of that is developed down there and that will ultimately send price signals. And, you know, as the US economy improves, we are going to see increased demand as well.

Rounding out our supply portfolio, we do have wind under contract currently with two wind farms in St. Leon and St. Joseph. These are privately owned and we've got long-term supply arrangements with them. St. Joseph's actually can be—we can double the capacity of that wind farm. And, in fact, there's about 3,000 megawatts of wind potential in the province. The challenge that we've got is it's not currently economic to develop that further at this time, and again that—we'll explore that further in the NFAT process.

So, in terms of our overall wind development strategy, it's not that we're ignoring wind but, again, it's not economic. It could be a stopgap measure if it's easy to—it's relatively quick, short lead times to bring wind on. And—but certainly it's not economic to develop as a resource at this time. The—one of the big challenges with wind is—and we've got an actually—a—quite a good wind resource in the province. Our

actual experience with the two wind farms has been on the order of a 37 to 38 per cent capacity factor. It's slightly better south of us in North Dakota, but the wind doesn't blow all the time, even in Manitoba. And so—[interjection] Yes, most of the time. It's not very good in extreme cold, either; we can't operate the turbines when it gets down below -30, and so you do need to invest in a firming resource. So it's not just the cost of building the wind farms, but it's the—you either need to build to gas generation to firm it up, or you have to have surplus available hydro capacity to firm it up. Both of which come at a cost.

And DSM, it's been a very successful strategy for Manitoba, allowing Hydro to respond to the unique characteristics of our domestic and export markets as they've evolved over the last 20 years. And we do expect this to continue as we move forward, not just expecting it but we're counting on it, in terms of meeting a part of the growth challenge. And we anticipate finalizing an updated study of the potential for further conservation in the fall of this year. But DSM isn't going to eliminate all load growth and I'm not sure that it's even desirable for that. We've got a growing population. We want to be in a position to supply power for a growing economy and bring additional industry into the province and support that.

We've also seen evidence of some fuel switching, particularly in water heating from gas to electricity for a variety of reasons. And then industrial loads, which I talked a little bit about before, can have some pretty dramatic impacts on load. And, you know, if—like, if you think of it, what a data centre can do to demand on our system, for instance, or, you know, some intense process loads, we can move our requirement for additional capacity forward one or two years on the back of one of those things. So it continues to be a key component of our portfolio and we will continue to pursue all economic DSM potential that we have.

This graph depicts—you know, it's a representation of a number of the existing programs that we've got in place and the overall cost, and when we assess the economic viability of a DSM program we think about the total cost of the program, both the cost to the consumer to implement the things as well as the cost to the utility. And provided we can do that at less than the marginal value of the supply to us in terms of the cost of new generation transmission and distribution assets that we can avoid and revenue opportunities through exports, then it's cost effective to do. And we can pay—and we filed evidence in the

last rate case that we can pay up to about eight cents for the total cost of DSM programs or that—and—before they become uneconomic at this point in time.

So we will—we plan to continue to invest in DSM over the next 15 years. We—almost \$450 million which is—we were—we averaged about \$22 million a year over the past 20, 22 years. And our current plan shows us, based on the programs that we're aware of and available to us today on the order of \$30 million a year as we move forward, that is expected to generate significant savings in terms of overall energy requirements for electricity and for natural gas. In fact, if I—yes, I do have the slide here—by 2027 we will have avoided the demand of about 70 per cent of—consistent with a Conawapa and on the same order of magnitude as the current Limestone system.

The other significant benefit of Power Smart, and particularly the programs on the natural gas side of the business, is the reduction in greenhouse gas emissions. Again, by 2027 it will have generated savings equivalent to removing half a million cars from the road. So that, in and of itself, is not inconsequential.

The final major area of focus that I want to spend a little bit of time on is aging infrastructure and system renewal. We built out our system in a couple of waves. Prior to the 1920s the only area with electric service was really Winnipeg and Brandon, and town electrifications began in the '20s. After the Second World War there was a huge push, and between 1945 and 1960 we electrified 370 communities and farm properties around the province. All of those assets are still in service and all of them are ending—are nearing the end of their useful life. So like most electric utilities in Canada the generation assets, transmission and distribution systems are getting old. It's getting more costly to maintain them and we're in a position where we've got to start renewing them.

* (19:20)

The state of our distribution assets due to condition and capacity limitations has a negative impact on reliability, outage performance and system capability and capacity to accommodate load growth. In fact, since 2001, our outage frequency almost doubled. Having said that, we're still a top quartile performer in the industry and so we're better than most in the industry, but we don't want to see that

erode further and we really have to get on with replacing those assets now.

So a significant portion of our distribution assets are at, or near, the end of their life expectancy and the replacement rates over the next two decades are going to increase dramatically. We've got almost a million poles in our system. We're going to have to replace a hundred—roughly 120,000 of those poles in the coming 20 years. I think the—at the current rate of replacement, it would take 200 years to replace our fleet. So that's kind of an order of magnitude of the ramping up that we're going to have to undertake.

In terms of substations, this is a picture of the King Street substation, which is the oldest one in our system. It's about a hundred years old and been in service for a hundred years. The equipment inside is antiquated. It doesn't meet current needs for safety clearances for employees and it has no capacity for new load additions. So the pockets around the city, we can't add new customers and new load, based on the overloading in certain areas of the city. This station alone, it will take about seven years to refurbish at a cost of \$50 million. We're going to have to replace or refurbish about 20 substations in Winnipeg alone and that program is going to cost over \$600 million in the next 10 to 12 years. In fact, we need to spend between five and 600 million dollars annually just to maintain reliability for our customers, and not considering new customer growth and attachment.

So I've talked about aging infrastructure and capacity constraints. We're also seeing accelerated load growth in the oil patch in the southwest part of the province. We've got to deal with integrity of our natural gas system. We've actually seen load growth on our gas system over the last two years of about 9 per cent, and a lot of that is commercial industrial process load. But we're planning on spending \$40 million this year in the gas segment, out of it, and we've got a total install base of about \$600 million. So, roughly, 7 per cent of our total asset base, we're—you know, that order of magnitude, we'll be spending on it.

One opportunity that we're, you know—we'll look to, is utilizing capacity that we have on the gas system. As the—as customers' furnaces and other appliances are turned over, they're much more efficient than they were. So, notwithstanding, that we're seeing strong growth in customer attachments. We've seen up until recently a levelization in overall throughput. Notwithstanding this uptick that we've

had in the last couple years because of some process load that's been attached and we need to extend the system into, you know, south of the city into Morris and over into Headingley to meet some of those requirements. But within the mature part of the system, we've actually got some additional, available capacity. So we'll be looking at how we can optimize the use of those assets to take some pressure off the electric system as well.

This next slide gives you an indication of the overall capital plans through the next decade and it reflects the major projects including Bipole III, Keeyask, Conawapa expenditures, and the Pointe du Bois Spillway project, and Riel, as well.

The one item, I guess, I'd like to highlight, although it's a big program, we've been here before. Back in the late '60s when we really started the northern development, over the course of, you know, basically 12 years, we quadrupled the size of the asset base of the company. And again, while the addition of roughly 2,200 megawatts of capacity is not insignificant, we've—by comparison, it is smaller on a relative basis.

So, in—as we move forward, there are financial challenges arising out of the revenue situation that we talked about, and the requirements for a very substantial capital investment program. We recognize that this challenge requires a broad approach, and we're carefully examining all expenditures and reducing or deferring where possible. Over the past five years, increases to our operating and admin expenses have been kept at less than the rate of inflation, and that's notwithstanding the wage pressures and benefit cost pressures that we've been under, and which constitute almost three quarters of our operating costs. Most companies have been hit with some pretty significant pension cost increases if they've had to find benefit pension plans, because of solvency requirements in the pension plans and the overall yield assumptions in those plans. So as the cost of borrowing reduces the discount rate that's used to determine the size of the pension liability, as it's come down as well, and it's actually made the pension liability higher. So that makes the annual cost of servicing that higher, and that bears no relation to inflationary cost pressures.

We've—some of the initiatives that we've undertaken, we've put a—we say a freeze here, but I guess I'd say it's a chill on filling positions. With the growth on our system and the construction activity, we've had to add resources there, but they're going

into capital plant. And I've got a slide shortly that shows relatively how we've been reducing the amount of employee positions related to operating which over time will be sustainable after the capital program comes down.

We've minimized over time, other than emergency response, and we, you know, we're at the whims of the weather when we get an ice storm or early snowfall and outages. We have to respond to those. Out-of-province travel has been restricted, support program, sponsorships, donations have been reduced. We've gained synergy and cost reduction through centralization of staff in the new office—head office building and 820 Taylor, as well as ongoing process improvement initiatives. And the implementation of our mobile workforce management system, the dispatch system in the trucks that—has taken some pressure off, and that we've been putting in place over the last year.

This was the slide I was referring to, and although the scale—if you look at what's happened since 2011, the relative shift in capital- or construction-related activity and ongoing operating FTEs, part of our strategy longer term is to look at reducing that ongoing cost and using the demographic bulge that we've got in the utility. We've got about 900 people that could retire this year. We aren't experiencing that level of retirement rates, but we're looking at where we can change the way we do work, and as people exit, voluntary exits out of—through retirement or job changes, rethinking the way that we—whether we need to refill positions and that sort of thing. So that will be a strategy that we'll employ over time to capitalize on that attrition.

* (19:30)

And then this is just a representation over the last five years. There were some cost pressures in 2010 that showed, from 2009 being the base year, an increase in operating costs and then a levelling, and we've been able to maintain our overall operating cost increases below CPI through that period.

A brief word on rates. No one wants to pay higher prices for their energy or for any commodity that matter, myself included, and I'd prefer to see us be able to avoid rate increases. This isn't always going to be possible. We're in a period where annual rate increases are necessary and prudent to avoid larger ones in the future. The good news is that we expect those planned electricity rate increases to be moderate and predictable. And predictable, I think, is important in the context of commercial and industrial

customers. Across the country every utility is going to see rate pressures going forward. They're facing a lot of the same challenges that we are. Our relative positioning, vis-à-vis that and their competitiveness, I think we're—we'll be in a position that we can help maintain. But knowing and being able to plan for and to take steps to conserve energy in their operations and the programs that we've got in place now that we can work with customers to enhance their conservation efforts will—should allow them or provide them some tools to be able to deal with those increases as we go forward.

We've asked PUB for a 3 and a half per cent rate increase this year. Our current outlook shows increases of 3.9 per cent on a go-forward basis. I'd take some solace from the fact that even with the proposed rate increases we can expect to maintain our position relative to the rest of North America as we go forward. The proposed rate increases ensure that we can continue to supply electricity to meet Manitoba's growing demand and provide safe, reliable and cost-effective service; as important, I think, is our ability to preserve the financial strength of the business and to weather potential drought in the future. And, again, as we build our system up the fixed costs and that of running the business goes up too. There's depreciation on the new plant and there's debt service on the plant. So we produce more energy, but we rely as well on the revenues that our anticipated production capacity provides us. So in a drought year our exposure's greater. So we do need to build our equity base in the company and, in part, the future year rate increases will be—will support an accumulation of additional financial capital within the business to weather that storm.

So my focus as we move forward is—*[interjection]* This is my last slide. It is to lead this next expansion of the system in Manitoba. We've got different challenges than in the '60s and '70s, including our responsibilities, our increased responsibilities, for those affected by our projects and the greater scrutiny and accountability we have from an environmental perspective and financial perspective. I think we're well positioned to continue the development of our hydro resources to ensure a reliable cost-effective clean and renewable electricity supply for Manitobans in the future.

And at that I'll—

Mr. Chairperson: Thank you, Mr. Thomson.

Mr. Chomiak: I think all committee members would join with me thanking Mr. Thomson for an

excellent presentation, informative. And I'm wondering if it's the will of the committee for a five-minute break.

An Honourable Member: Agreed.

Mr. Chairperson: Agreed.

Could I request you one housekeeping thing? But please do not use your cellphones while seated at the tables. Last time an honourable member mentioned. So both sides, please, if you have to text, please go back and sit on the chair.

And second thing is when asked questions and answers, please raise your hand and go through the Chair. Thank you very much.

Let's have five minutes, please.

The committee recessed at 7:35 p.m.

—————
The committee resumed at 7:47 p.m.

Mr. Chairperson: Now the committee resumes and floor is open for questions.

Mr. Schuler: I'd like to congratulate Mr. Thomson, I think he has now set a record for the length of a presentation in the Manitoba Legislature. I think that was close to hour and 25 minutes, and a lot of information.

Manitoba Hydro is incredibly important to the economy of this province, in fact, it is, I believe, after government, our largest employer. So it's very important that we do take time at committee and ask some questions. I would like to start off with a request/question, and that has to do with Manitoba Hydro does not send FIPPA acknowledgement letters like all the other Crown corporations. This makes it difficult to determine if a FIPPA is late in being returned, as we are never sure when Manitoba Hydro received the FIPPA.

Could Manitoba Hydro please operate the same as all other Crowns and send acknowledgement letters?

Mr. Chomiak: I'm not aware of what the specific procedure is with respect to Manitoba Hydro, but I'll endeavour to provide the information back. And if other Crowns do provide acknowledgement letters, I don't see why Manitoba Hydro would not provide acknowledgement letters. I think it—although the minister's office doesn't have a say in that, I don't

think that's a problem. So we'll get back to you on that, and if acknowledgement letters are provided by other Crown corporations, I don't see why Manitoba Hydro would not do that.

Mr. Schuler: I thank the Minister for that. Why that is important, again, is because it sort of sets the time frame by which a Crown corporation has to then comply by the FIPPA laws, the 30-day rule, and then we know when it kicks in; it's usually the date of the reply letter acknowledging that they received the FIPPA. So we certainly appreciate that.

* (19:50)

I'd like to move on and ask how often does the board chair or president and the CEO meet with the Minister responsible for Manitoba Hydro?

Mr. Bill Fraser (Chair, Manitoba Hydro-Electric Board): Usually once every two weeks or thereabouts. Depends on, you know, if issues come up, we're certainly at the call of the minister but, I mean, on a regular basis, in terms of providing updates, there's various groups that ask to meet with the president and the chair and the minister at the same time, and so on. So it varies, but on a—just an ongoing update, I'd say roughly every two weeks.

Mr. Schuler: Does the board chair and/or president and CEO also meet on top of that with members of the minister's office?

Mr. Fraser: Not generally and certainly not on a regular basis but, you know, for example, I asked if we could have a discussion with the minister's policy advisor yesterday to get some idea of what type of questioning might be on the agenda tonight so that we could be prepared and have the material, and so on, but not as a regular course of business.

Mr. Schuler: Gee, I would have loved to have been part of that briefing.

Question: When was the last time the board chair, president and CEO met with the minister?

Mr. Fraser: We met this morning again with regard to this evening's meeting and with the presentation and the material, and so on.

Mr. Schuler: Does the board or CEO meet with any other ministers?

Mr. Fraser: Not that I can recall. I mean there's—you know, if a minister asks for a meeting we would certainly meet with them but, I mean, in my tenure I can't recall offhand having meetings with other ministers, certainly without our own minister.

Mr. Schuler: Does the minister provide policy directives to the board?

Mr. Fraser: Well certainly through legislation in terms of things like the PAYS program, and that sort of thing, but other than that, no.

Mr. Schuler: Does the CEO or any member of the board meet with the Premier or persons designated from the Premier's office?

Mr. Fraser: Haven't actually met with the Premier other than to discuss recruiting me to this position, but have had occasion when there was public announcements, and what not, when Hydro was involved and the Premier was involved to be party to the opening of Wuskwatim, for example, the electric bus battery and the PAYS program, and things like. But, I mean—

Mr. Chairperson: Mr. Thomson.

Mr. Thomson: Yes, I'd just like to add to that. I referred earlier to some meetings that we had with key senators in Washington earlier this spring and I attended those along with a couple of my staff, and the Premier and his staff were in attendance at those meetings.

Mr. Schuler: How are board members chosen?

Mr. Chomiak: The board members are chosen under the auspices of the provincial government. It's generally based on issues of the type of expertise, background and related abilities, and it's always been the same. Appointments by order-in-council, regardless of which particular government is in power, it's been by Lieutenant Governor-in-Council and it's been based on a variety of factors to be representative of the population in general. For example, we're very proud of the board having representation from both First Nations and Metis communities, women and various people who live in various regions of the province to reflect the balance of the population in the province, and those issues are canvassed in that regard with respect to Hydro board appointments.

Mr. Schuler: Does the amount of money donated to the provincial NDP party play a role in how members are appointed?

Mr. Chomiak: No.

Mr. Schuler: Over a period of six years, from 2006 to 2012, 11 board members of Manitoba Hydro have donated more than \$42,000 to the provincial NDP, some of these members in amounts exceeding

\$10,000 in personal donations. Can it still be said that political donations have nothing to do with board appointments?

Mr. Chomiak: Yes, it can be said that.

Mr. Schuler: So the fact that individuals are donating six and a half thousand, \$5,000, \$8,172, slightly over \$10,000, that would have nothing to do with an appointment.

Mr. Chomiak: I think that some of the members of the Hydro board would resent that kind of accusation. Particularly the former member of Parliament who was a Liberal member of Parliament in Ottawa who's now on the Hydro board and some of the other candidates on the Hydro board, I think they would resent that particular political accusation of the member. Perhaps if that is the member's criteria for appointment to boards, that's one thing, but that's certainly not the criteria of this government's appointment to boards.

Mr. Schuler: Well, actually, Minister, none of this—through you, Mr. Chair—none of this is secret information. This can all be achieved from Elections Manitoba site, and I don't think anybody need to be felt that they have been singled out or not singled out; it's public information. This is not cloak and dagger kind of stuff. It's out there and it's in the public purview and anybody can go and research it. And I think it's fair to say that, you know, that's a sizable amount of money that's been contributed by a small group of people to the NDP and somehow all—some of these individuals, not all of them, but some of these individuals have gotten on the board after making substantial donations, and we'll just leave it at that. The minister has said that has had absolutely no impact on their appointment and, well, we have to take the minister's word for it.

Question: How often does the board of directors meet?

Mr. Chairperson: Kindly address through the Chair. Thank you.

Mr. Fraser: The—nine times a year. There's nine board meetings. There also is additional sort of meetings the night before and that sort of thing where we might have a speaker come in to speak to the board on a particular area of interest.

Mr. Schuler: Is attendance taken at board of directors meetings?

Mr. Fraser: It shows up in the minutes of the board meeting, yes, who was in attendance.

Mr. Schuler: Are those attendance records available for public consumption?

Mr. Fraser: Somebody can correct me if I'm wrong on this, but I believe that is available.

Mr. Schuler: Is it possible that the last year's minutes could be made available to myself?

Mr. Fraser: I'll certainly take that under advisement if.

Mr. Thomson: I don't believe—I believe we had this question last year, and I don't believe that the minutes are generally made public.

Mr. Schuler: Well, I appreciate that they're not generally made public, but are they not generally made public? Like, what are the criteria for accessing minutes of Manitoba Hydro?

Mr. Chomiak: I think this probably goes into the realm of public policy and I think it's—it would be appropriate to suggest that minutes of the board dealing with matters of business-related functions and other matters would not necessitate being—those minutes being made public, and I don't think it serves the public interest insofar as most of the actions and the undertakings of Hydro are public via the presentations to the Public Utilities Board and other public actions.

* (20:00)

But the minutes and the inner—and the minutes of the board of directors, I think, are appropriate for a Crown corporation to be in camera as they deal with third-party liability. And there has been experience in the past when information has been provided which may have been distorted, but I don't think that would happen out of this committee because we had a very good representation of the facts around this table, and I think we totally understand the future going forward in terms of Hydro.

But no, I don't think the policy has changed in the past 40 years that I've been involved with Hydro.

Mr. Schuler: Just to be clear, that's a no?

Mr. Chomiak: I think it's public policy that's been in place for about the 40 years that I've been aware of the functioning of this corporation.

Mr. Schuler: As the board members have all been appointed, are all appointments term-based?

Mr. Chomiak: Yes.

Mr. Schuler: Are there any board members currently serving with expired terms?

Mr. Chomiak: I don't believe so.

Mr. Schuler: Is it possible to get the terms of the individual board members' appointment and when their term expires?

Mr. Chomiak: Yes.

Mr. Schuler: The last committee that sat, I believe sat April 4th, and I understand that the information was then forwarded on May 17th, which I think is commendable; that's a very good turnaround time. Is that kind of time frame—obviously there are going to be more questions forthcoming—is that sort of the time frame we would be looking at again?

Mr. Chomiak: The corporation endeavours to provide this information as quickly as possible.

Mr. Schuler: Well, if the last committee is any indication, then that would be absolutely the case, and we appreciated that very much. That was a very decent time frame: month, month and a few days. We appreciate that.

Perhaps the president may or may not know that limits or expired terms of board members was an issue, and I think it's very important for the public to know that the appointments are up-to-date, and that's why we ask. So we appreciate, certainly, if there was a list and for how long they're appointed, and when their term expires.

Is there a cap on the number of times one can be appointed?

Mr. Chomiak: I think that the Auditor General recently did a report to government with respect to board governance in matters concerning board governance, and suggested that generally term limits be applied to board members.

Mr. Schuler: Is there a cap placed on board members at Manitoba Hydro?

Mr. Chomiak: The recommendations of the provincial auditor have been implemented by the provincial government, including implementation at the Crown corporation within the best parameters in terms of dealing with board seniority and the appropriate functioning of the board.

Mr. Schuler: Was that a yes or a no?

Mr. Chomiak: The provincial auditor made recommendations with respect to term limits as they apply to Crown corporations and other elected

bodies. The provincial government has endeavoured to meet those particular limits as they exist within the functioning and the parameters of the board. In some instances, the term limits have been extended by a year or two to allow for board sponsorship or board education. In most cases, those limits have been respected and have been—have resulted in turnover of board members across the realm of Crown corporations, and other government entities in conjunction with the recommendations of the provincial auditor.

Mr. Schuler: So what is the term limit for a board member at Manitoba Hydro now?

Mr. Chomiak: I believe the recommendation of the auditor were a 10-year limitation on board members, two terms, I think is the recommendations of the provincial auditor. If the member would like, I can provide the member with a copy of the recommendations of the auditor with respect to board term limits and board numeration and board governance.

Mr. Schuler: Are appointments to the board staggered?

Mr. Chomiak: Yes.

Mr. Schuler: Is there any form of succession planning for the board?

Mr. Chomiak: Yes.

Mr. Schuler: And could I ask the minister, where is the minister's office in regards to succession planning for board of directors?

Mr. Chomiak: The issue of board succession and board governance is under the auspices of the Crown investments council, which has regular education and regular meetings and sponsorship of the education and the continuing understanding of board governance and the model of board governance, and we're working with the Crown investments council to work on this on a regular basis to ensure that board members are both provided with information and that issues of succession and related matters are dealt with as per the recommendations of the provincial auditor.

Mr. Schuler: Who chairs the Crown investments council?

Mr. Chomiak: Raymond Borrier. *[interjection]* Borrier? Vauvriar? *[interjection]* Poirier. As in, to find? Poirier.

Mr. Schuler: And are there any other members on the council?

Mr. Chomiak: That board doesn't—the council doesn't report to me, but I will endeavour to get a list of the members of the Crown investments council to the member. The Crown investments council was formed out of the Crown Investments Corporation, which had its birth in the mid- to late '80s, as I recall, which was then moved from being a Crown corporation to being a Crown investment council with board appointees on it.

Mr. Schuler: Well, I thank the minister for the history lesson on Crown investments. I do know a little bit about them. I worked there one entire summer as a summer student.

And do they also oversee succession planning for senior management?

Mr. Chomiak: I think they have a role in dealing with those matters.

Mr. Schuler: So how far does their role go when senior management decides to step down, or how do they do succession planning? Like, what is their involvement?

Mr. Fraser: We go before the [*interjection*]-thank you—the Crown Corporations Council and have similar discussions in terms of, as we're having today, in terms of the strategy and the risks and the opportunities and so on and the strategies of Hydro going forward, and there are questions in terms of succession planning. But in terms of actual succession planning itself, the specifics of it would be a corporate responsibility and a board responsibility. I mean, certainly succession planning at the most senior levels, when it comes to the CEO and the senior vice-presidents in the organization, is a board responsibility.

Mr. Schuler: And how active is the board in succession planning? I believe the CEO mentioned that currently there are approximately 900 individuals that could be retiring in the company, and he indicated that reducing staff—one way is by attrition. I suspect some of those may be senior management and might have to be replaced.

How involved and how active is the board in succession planning, knowing that there is a large group of individuals that might be retiring?

* (20:10)

Mr. Fraser: Certainly, the board was very active in terms of the recruitment of a new CEO and the hiring of Mr. Thomson and hired an outside human resources firm to do a national search and do the screening and the interviewing and so on. Certainly, there are a number of VPs that are in that pool, that are of the age and tenure to be able to retire, and that is an issue that Mr. Thomson is looking at in terms of—there has already been some restructuring as a result of that. The vice-president of finance retired a short time ago; in fact, I think they're having a retirement dinner this Friday for him. And so there was some restructuring around that and some recruitment, both from within the organization and outside the organization to fill that, but the board's role is mainly at the CEO level, in terms of hands on. I mean, then it's the CEO's responsibility beyond that, although the selections have to be approved by the board at the vice-president level.

Mr. Schuler: What qualifications, credentials are required for board members to be appointed to the board, other than being a significant donor to the NDP party?

Mr. Chomiak: I think—I thought the member had indicated that that particular factor he just referenced wasn't an accepted fact but, nonetheless, he's repeated it again.

That is not a criteria for appointment to the board. It may have been under previous regimes, of which I know the member's quite familiar, but it's certainly not a criteria of this particular government, and I was involved in the appointment process for the board members directly.

With respect to the criteria, I've already outlined the criteria of qualifications, be it particular expertise, regional representation and certain matters respecting the general population in Manitoba in order to reflect the population. The member may not be aware, but we tend to try to reflect the nature of Manitoba population in our board appointments, which is to maximize the representation across the board of groups that may have not been represented in the past. And we're endeavouring to do that right across the spectrum.

So it's a variety of factors, as outlined before: regional representation, representation in terms of population, in terms of qualification, in terms of specific needs for the board—for boards. For example, there's some boards that you have need, for example, with something that might—for example, you may want board members that have legal background, or

you may want board members that have accounting background. You may have—want to have board members that have grassroots practical farming background or background with respect to their particular origins or socio-economic basis.

So, it's a variety of factors, and we've been very pleased to have the—we're very pleased with our board and, I mean, before us right here is an individual who's chair of the Hydro board, who was the head of Manitoba Telephone System for a number of years, and we're very pleased that Mr. Fraser accepted the position to be chair of our board at Manitoba Hydro after a very distinguished career as president and CEO of Manitoba Telephone System.

Mr. Schuler: I think the minister meant he—very happy that he took over as chair of Manitoba Hydro, but we'll leave it at that.

Is there a regular evaluation of board members?

Mr. Chomiak: I'm not sure what the member's referring to, with respect to evaluation of board members. In terms of accountability, board obviously has fiduciary accountability and fiduciary responsibilities to manage. And clearly, the chair of the board would deal with matters that—of any malfeasance or any other related matters, but in terms of evaluation, I don't know what the member's getting at.

Perhaps Mr. Fraser can enlighten us.

Mr. Fraser: There has been, about roughly two years ago, a consultant hired to do an evaluation of the board evaluating itself so that the various members on the board and the audit committee and so on were asked a series of questions in terms of, you know, were they getting appropriate information and that sort of thing, were they being given the opportunity to participate in—and, basically, a self-assessment of the process and the committee structure and the agendas and the material, and so on, and whether there were areas of improvement coming out of that. But it was basically a self-assessment by the board with the help of a consultant.

Mr. Schuler: And who is the consultant who helped out?

Mr. Fraser: I could get back to you with that information. I don't recall offhand.

Mr. Schuler: Does the board approve its own expenses?

Mr. Fraser: The chair approves expenses for members of the board. Several of them are from outside of Winnipeg, so have travel expenses and in some cases hotels and meals, and so on, and I approve those. My own expenses are reviewed periodically, and they're very minimal, by the chair of the audit committee.

Mr. Schuler: How's the board remunerated?

Mr. Fraser: There is—I believe it's \$7,200 a year or very close to that. It's a remuneration.

Mr. Schuler: So that would be the remuneration for board member. Do they also get paid a stipend if they show up for meetings?

Mr. Fraser: No.

Mr. Schuler: As already mentioned, some expenses are covered. Could Mr. Fraser give us another opportunity to hear him say what are the expenses that are covered for board members?

Mr. Fraser: Any—like, we have a board member from Churchill, for example, one from Arnes. I mean, there's a couple of board members from—they're out of town. So, I mean, their travel and lodging for the board meeting would be covered.

Mr. Schuler: And are all expenses paid off of receipts?

Mr. Fraser: Yes, except there are in some cases car mileage. So if somebody's—we have a representative who drives in from out of town, the standard government mileage rate, and it's—these are pre-audited by the staff at Hydro before I see them in terms of that, you know, they're correct in terms of the meal allowance and-or mileage allowances, and so on.

Mr. Schuler: We understand that a mileage log is considered a receipt. So, again, just to be very clear whether it's a mileage log or expenses, but it's always paid off of some kind of receipt?

Mr. Fraser: Yes.

Mr. Schuler: Are—

Mr. Chairperson: Mr. Fraser, yes.

Mr. Fraser: I might add also that the Crown Corporations Council also requests details in terms of remuneration of board members that is sent to them and signed off by staff and by myself.

Mr. Schuler: And are those receipts and expense claims posted anywhere on a website or is that just an internal document?

Mr. Fraser: It would just be an internal document and, I would say, certainly in my experience that they're minimal expenses. There's—and they're normal expenses. They're mileage, they're hotels, they're meals.

Mr. Schuler: Is there a specific conflict of interest document that has to be signed by board members, say, something similar to what members of the Legislature have to sign? Is there some kind of conflict of interest document?

Mr. Fraser: Yes, there is.

* (20:20)

Mr. Schuler: And what kind of things are laid out in the conflict of interest document?

Mr. Fraser: It's a normal conflict of interest policy similar to what Hydro employees—it indicates that, you know, the fiduciary responsibility of the board members is to Hydro and the effective operations of Hydro. There's nothing unusual about it; it's a normal conflict and, you know, that if there ever was a situation where somebody had a personal relationship or involvement in some transaction that was being discussed at the board, that they would have to recuse themselves from that process. And again, the policy itself is reviewed on an ongoing basis by the Auditor General's office and certainly has been looked at. I don't know if it's looked at on an annual basis, but looked at by the Crown investments as well.

Mr. Schuler: Page 57 of the latest annual report, if members would have a look at it. Page 57 under expenses, operating and administration, 2011; 463 million, and 2012 it rose to 472 million.

Could the committee hear why the expenses went up \$9 million when net income has gone down from \$89 million down to \$61 million? Why this increase?

Mr. Thomson: The operating costs, as I'd mentioned earlier, are heavily driven by human resources, wages and benefits. Benefit costs include pension related costs, and those have increased. The \$9-million increase is on the order of just under 2 per cent, so wage rate adjustments and wage settlements that we've had have been north of 2 per cent in the year in question. I think it was 2 and a half per cent, if I recall correctly. The reduction in

net income, you'll note that revenues had declined. Man—the in-province revenues had declined by \$8 million, extraprovincial revenues had declined about \$35 million; so the increase in operating and administrative expenses are in line with the rate of inflation.

Mr. Schuler: I'm still not quite clear how it is that operating administrating stations seems to have gone up by \$9 million. I mean, we—I think we understand wage increases and the like, but is it purely a—wage increases and pension issue, or was more staff added to the administrative side? Because we've seen that the amount of staff overall has declined, yet operating administrative budget went up.

Mr. Thomson: Well, operating and admin costs aren't just admin staff; they're all field operations personnel as well. The lion's share of that line item is wages and benefits, and so those types of costs have increased at greater than the rate of inflation, and again, that's largely driving that change.

Mr. Schuler: Could Manitoba Hydro tell us what they would estimate the cost would have been for Manitoba Hydro to prepare for this committee meeting? What would the costs be for that?

Mr. Fraser: I would say—I mean, I couldn't give you a specific number, but, I mean, they would be fairly minimal. I mean, the slide presentation that Mr. Thomson did and the work behind that would be the major endeavour, although most of that material is common to a number of other regulatory oversight reviews that are currently going on. So, I mean, it—the information is readily available from PUB documents and so on.

So, I mean, other than the preparation of Mr. Thomson and an hour-and-a-half meeting yesterday and a 45-minute meeting this morning, in terms of talking about tonight—but, roughly, it. I mean, there's no unusual expenditures or—it's mostly Mr. Thomson's time preparing.

Mr. Schuler: And from the presentation, I take it that actually no new generation is actually required until—projected until 2022, is that correct?

Mr. Thomson: Yes, we've—the capacity that we have installed now, we anticipate that will be sufficient, based on the current load forecasts to meet our demands. In any given year, where we draw our supply from and the system overall will depend in part on water levels and that, as I'd mentioned, it could move up or be deferred somewhat. There's—it's

difficult to predict with precision what's going to happen 10 years from now.

Mr. Blaine Pedersen (Midland): I have a question somewhere.

And landowners affected by Bipole III have been approached and will be expected to sign an easement to cross their property, once Manitoba Hydro is granted a licence to build Bipole III. This easement is a legal document, and it—and landowners will be seeking legal advice prior to signing an easement, and will Manitoba Hydro reimburse landowners' legal costs associated with the easement agreement?

Mr. Thomson: We have a policy for compensating landowners for those easements. I will have to get—I don't know off the top of my head whether legal costs explicitly are covered for that review, but I do know that the amounts that are included in the policy are fair and reasonable, and 650 people wouldn't—or however many landowners that would be granting easements—wouldn't all have to repeat the same work. And it would—so I don't—I'll have to undertake to get back to you whether legal fees would be covered. I don't think so, but in the overall package of compensation I think that they would be satisfactorily remunerated.

Mr. Pedersen: I would appreciate you getting back to me on that specific issue: legal costs for the easements that they're expected to sign. And if you could give me a time frame, because once this licence is granted, even though evolve land management is out there trying to get the guys to sign up right now, it is critical to them, and I would appreciate a prompt response back.

Mr. Thomson: We'll undertake to get that information to you as quickly as we can.

Mr. Pedersen: And what would be the timeline for that?

Mr. Thomson: I'll have to inquire with staff that have the particulars. I don't anticipate it will be a lengthy delay.

Mr. Schuler: If Bipole III had been routed down the east side of Lake Winnipeg, would it have been able to handle all the power generated by Keeyask and Conawapa?

* (20:30)

Mr. Chomiak: The member is asking a hypothetical question with respect to a hypothetical situation. The

route is not being run down the east side and it's been determined to run down the west side. So I'm not sure if—I'm not sure what the purpose of the question is. And asking someone to speculate on something that's not happening is kind of a weird question, in my view.

Mr. Schuler: Is Bipole III needed for transferring Keeyask's power south?

Mr. Chomiak: I think over the past several years we've indicated that Bipole III is necessary for the reliability of the hydro system, and it's been stated as such since the report came out in 1997 that suggested another transmission line was required to back up Bipole I and Bipole II for purposes of reliability.

Mr. Schuler: Perhaps already been answered, but is the current in-service date for Bipole III still 2017?

Mr. Thomson: That is still currently the plan.

Mr. Schuler: Is there any discussion about pushing that date back?

Mr. Thomson: There's no plan to push that date back. As I had mentioned in the presentation, the Bipole III Clean Environment Commission hearing was adjourned and ran longer in the end than we'd originally envisioned. So the—that will result in a delay in when we had originally anticipated getting licensing of about three months, assuming that it does come through. That will put pressure on a 2017 date. But we're still working towards that, provided the licensing comes through in June or by June.

Mr. Schuler: If—and there's a discussion about new generation needed in the mid-2020s. What type of a hydro line would be needed to bring it south?

Mr. Thomson: We'll utilize capacity that would be available to us with Bipole III as part of the overall transmission resource that we have to deliver the Keeyask power south.

Mr. Schuler: Is Bipole IV being discussed in regards to that at all?

Mr. Thomson: No. We don't anticipate at the present time that—assuming both Keeyask and Conawapa are built, we don't require a Bipole IV.

There will be some—likely the next transmission asset that would be added would be an AC line, not a Bipole IV. Ultimately, if there are a couple of additional sites that have significant hydro potential on the Nelson River, which likely wouldn't get developed until the 2040s, 2050s—ultimately, if those sites are developed, we'd need additional generating—

sorry—transmission capacity, but not for a couple of generations.

Mr. Schuler: In the September 30th, 2012, Manitoba Hydro power resource plan, it talks about our—about power resource development plan, the sales package, and it says: the transmission allowance for additional north-south transmission beyond a 2,000-megawatt Bipole III, as required for the combined output of the Keeyask and Conawapa generating stations with a 2025-2006 ISD.

And that—I guess that's where we're not really clear. Is Bipole III capable of carrying the combined output of Keeyask and Conawapa or are we going to need a Bipole IV—or you mentioned that it may be a different line? But are we going to need another line to help with these projected developments?

Mr. Thomson: My understanding is that we don't require any major new transmission. There'd be some reinforcement of the existing AC transmission system assets.

Mr. Schuler: So a fourth line is far down the road. It's not even part of the discussion process. It's that far away.

Mr. Thomson: That's my understanding. I'll follow up on that and I can confirm that.

Mr. Schuler: I suspect if we're talking about the 2020s and beyond, we could probably wait until the next committee if that could be discussed, or if there happens to be something more relevant if that could be sent to us. But, like—certainly, the concept of a fourth line coming down from the north is floated out there periodically and I think the public has, you know, some right to know where the discussion is on that even though some of us may not live to be around for that time. But I'll leave that with the CEO and we'll move on.

All new capital project costs have been significantly over budget, and that has been a consistent problem certainly with Manitoba Hydro. The question is: Why should we expect the new capital spending to stay on these revised budgets?

Mr. Thomson: I don't think it's actually accurate to say that all capital projects have been over budget. In fact, if you go back to—the Limestone, that was about a billion dollars under budget in then-current dollars. There are factors associated with commodity input costs, the significant production input costs that can vary.

We've learned, you know, Wuskwatim was a bit of a—there were a number of lessons taken from Wuskwatim. We've been planning Conawapa for quite a number of years. In fact, it was brought forward in the past and then ultimately the sale to Ontario fell through and the project was shelved. But we've got a great degree of certainty around the design of the project. There are—you know, it's—we're not contemplating starting construction of Conawapa until 2016, and it's a nine, nine-and-a-half-year build.

Obviously, we don't know precisely what inflation rates are going to be over the next 10 years, what the costs of borrowing's going to be or, for that matter, some of the key input costs—cement, copper, diesel fuel, et cetera—that do play a role in that although we factor that into our plans. And as I had mentioned in the presentation, we've—for planning purposes we have also included a reserve estimate for greater than the projected rate of inflation of some of the input costs, which is management's consideration right now of the fact that we've got a lot of infrastructure projects getting built across the country. The—it's—we don't know with certainty what's going to in the oil sands, whether that's going to abate or whether it's going to heat up again, and we'll be in competition for labour with other projects.

But—and it's not even just a Canadian phenomenon. Some of the major equipment suppliers, the turbine suppliers, it's a world demand. There aren't a lot of manufacturers of these massive turbines. So we can benefit from a market where the—where there aren't a lot of projects going on when we contract for them, or we can be in competition for that part of the supply chain when we need the product.

That said, we've—so we've added a planning reserve margin for that, as well. We feel quite confident, based on the assumptions that we've made, that we've got a good handle on the scope of the projects and we can deliver on the scope of the projects, and those really haven't changed dramatically over the last couple of years in any material way.

So I'd be lying to you if I had told you that I can predict within \$10 of what the project costs are going to be, but I think that we've made very prudent and reasonable estimates based on the information that's available to us now and based on the planned in-service dates. If a project gets delayed then we're going to have to deal with an extra year of inflation.

We're going to have to deal with the cost of financing if interest rates change.

* (20:40)

But I think that we're fairly confident, as I said, that we understand the scope of the projects that we're building.

Mr. Schuler: I guess the question was, all new capital projects have been significantly over budget, and I would put Wuskwatim in there—probably not Limestone, that was done quite a while ago—and Wuskwatim, it was almost like an auction house the way the price kept going up, and I think I would put the Hydro building in there as well, before your time. The initial estimates of the cost of the building were significantly less than the final price of it and certainly that has impacted Hydro on their bottom line, because what Wuskwatim was initially supposed to be built for and what the end price was is a substantial difference.

I've a question for the CEO of Manitoba Hydro and that is, do the Public Utilities Board estimates of operating costs in cents per kilowatt hour include fixed and variable costs?

Mr. Thomson: The PUB—can you repeat the first part of the question for me?

Mr. Schuler: Do the Public Utilities Board estimates of operating costs in cents per kilowatt hour include fixed and variable costs?

Mr. Thomson: Yes, I believe they do.

Mr. Schuler: So what would be the fixed costs of running a generation cent—these generating stations in cents per kilowatt hour?

Mr. Thomson: Each one's different. The nature of the fixed costs are the depreciation charge and the cost of financing the facility, the operating costs or the manpower—generally speaking, it's the manpower associated with running the facility, so—and then divided through by the productive capacity of the plant. And there will be some variability and, generally speaking, those costs decline over time because the—as we depreciate the asset, the financing associated with each facility is reduced.

Mr. Schuler: What is the total expected compensation cost for all organizations and individuals impacted by Bipole III?

Mr. Thomson: I'll have to undertake to get back to you with the answer on that.

Mr. Schuler: Seeing as there've been some interesting court cases that have come out, how will Manitoba Hydro decide who speaks for the Metis people?

Mr. Chomiak: There have been some interesting cases coming out, most particularly a declaratory action or judgment by the Supreme Court of Canada with respect to Metis land rights and the position taken by the federal government, the Government of Canada, with respect to those rights and how they are dealt with. The portion dealing with Manitoba was dismissed by the court and there is no application or direct application to Manitoba.

With respect to the—to dealing with the Manitoba Metis Federation, the government takes the position that they deal with the Manitoba Metis Federation and they deal with individual communities as well. They're—we are subject to section 35 consultation requirements under the constitution with respect to individual communities, and we also deal with the Manitoba Metis Federation directly.

Mr. Schuler: How long will this process take?

Mr. Chomiak: It's a very interesting question. The member refers to process, and it does get to the nub of some of the issues that face us going forward with respect to development in the province.

The Keeyask partnership agreement with the Keeyask First Nations took seven years, I believe, to actually finalize with respect to going forward. And if you look at the time frame with respect to developments in this province, it's one of the reasons why we think it's really important that we not stall the progress and the development of hydro. You just don't switch on the hydro power; it takes years to build a dam, seven to 10 years. We found that the processes with respect to First Nation engagement take a number of years and it requires planning and foresight to deal with it.

So there are some, believe it or not, who actually want to stop hydro development in this province. They want to stop it in its tracks, not realizing that most of the hydro development we're making is seven and 10 years out and will come on stream to meet demands and needs in the 2020s and 2030s. And we will be sabotaging our children's future by not investing today in hydro as our generation previous invested in hydro and provided us with the lowest hydro in North America and the capacity to grow.

Further to that, we have responsibility as a hydro province to develop this resource for all Manitobans. Manitoba Hydro, for example, as the president said, provides millions and millions of dollars to First Nation communities for hydro development that would not be there, but for hydro development.

To look at it retrospectively, old hydro, the Grand Rapids flooding, for example, that wiped out—without consultation—communities and flooded communities out, we've now paid almost a billion dollars in compensation. But Hydro has learned from that. We're now going forward and developing it with First Nations.

So I think it's a valid question. The process is a complicated one and it's one that Hydro has developed some expertise in, and it's costly and time consuming, but it's worth the effort. So I'm glad the member asked that question because it's—sometimes people are under the misapprehension that developing hydro is like flipping a switch. You have to develop this far in advance and you have to look to the future. And so that's why I'm very pleased the member asked that question and we had a chance to discuss it here at committee.

Mr. Schuler: I just want to be very clear. So does the minister say that the court ruling does not impact the Metis, and Manitoba Hydro—that they will not have to be consulted?

Mr. Chomiak: No, I didn't say that.

Mr. Schuler: So what impact will these negotiations or discussions have on new development projects, especially Bipole III?

Mr. Chomiak: We have the duty to consult with the First Nations and we are endeavouring to do that both with the First Nations and with the Manitoba Metis Federation.

Mr. Schuler: So has the Manitoba Hydro begun consultations with the Metis peoples?

Mr. Chomiak: I—the Manitoba Hydro has had numerous discussions and consultations and meetings with the Metis people.

Mr. Schuler: And is there a conclusion coming out of that or is it a process that just started?

Mr. Chomiak: I tried to convey to the member that this is an ongoing process that has developed over time. Several years ago, for example, prior to the ruling of the Supreme Court there wasn't necessarily

a duty to consult. There's now a duty to consult and has evolved over the years to different processes. Manitoba Hydro has evolved its processes as well from the—at the time of compensation and the Northern Flood Agreement to a time of now where they consult with First Nations and Aboriginal peoples with respect to pre-emptive discussions relating to hydro and hydro developments. Those include the Metis people and those will continue to evolve and develop.

I think that Manitoba Hydro has a very positive reputation of dealing with First Nations. In fact, the equity partnership entered into between Manitoba Hydro and First Nations is the first of its kind in North America and, in fact, is one of the factors that works very positively in Manitoba Hydro's favour when they sell clean, green hydroelectric energy to a—to our southern customer who look for a—social values and environmental values connected with the provision of energy.

Mr. Schuler: Yes, from the presentation from the CFO, I understand that the hydro line going from Riel to the United States is part of the NFAT, however, Bipole III is not. Why would that be?

Mr. Chomiak: Manitoba Hydro and the government determined, decades ago, actually—either it's a 1997 report which recommended a bipole—recommend it be built for reliability. That is the requirement then. It's the—Bipole III is being built for reliability. The other factors, all of the capital factors are being considered by the NFAT and will be—and all options will be considered. But with respect to bipole, insofar as it's needed for reliability it has to be done in the interest of all Manitobans.

* (20:50)

The member may be aware of the fact that there was a catastrophic event that occurred, fortunately not too far away from jurisdictions that are allowed—the hydro lines to be repaired. But in the late '90s there was an outage to one of the by—to the bipole and but for the ability to repair that line, there could have been a catastrophic outage. And we are—we cannot build bipole soon enough with respect to providing for reliability for the system.

Mr. Schuler: Does Manitoba Hydro expect that both term sheets, Great River Energy, Wisconsin Public Service—that they will result in final contracts?

Mr. Thomson: Yes, we do. We're in ongoing negotiations with the parties as we speak.

Mr. Schuler: Initially the Wisconsin Public Service was a 500 megawatt and then has been downgraded to 300 megawatt—why was that?

Mr. Thomson: That—they've determined what their requirements are for their system.

Mr. Schuler: Are we going to see any further downgrading from 300 megawatt?

Mr. Thomson: We don't anticipate that, and over time I'd mentioned that there's possibilities for further expansion by Minnesota Power of the line that they're building in the US, so there's opportunities for future sales as well.

Mr. Schuler: Is Manitoba Hydro concerned about the lack of progress on the CEC hearings for the final Lake Winnipeg licence?

Mr. Chomiak: I think from a policy sense, we are—you know, we are certainly doing all that we can in order to provide the correct information and the appropriate information to the regulatory authority to allow them to make the appropriate decision.

Mr. Schuler: Under the Keeyask adverse effects agreement, have all payments as required—have all payments been made as required under the GAA?

Mr. Thomson: As far as I know, they have.

Mr. Schuler: Under the agreement there was supposed to be—there has been, not supposed to be—there has been funding provided for the Keeyask Centre and I was wondering, is that complete? Where is the Keeyask Centre currently?

Mr. Thomson: It's—funds have been advanced according to the agreement and my understanding is that construction is commencing this spring.

Mr. Schuler: When were the funds given? When were the funds let or forwarded?

Mr. Thomson: I can provide that. It was consistent with the timing set out in the agreement, but I don't have the dates at my fingertips.

Mr. Schuler: So has a contractor already been commissioned to start the construction?

Mr. Thomson: I don't have details on that, that's not the—you know, the band is responsible for that. That's—we had a funding obligation, but how they utilized the funds and contracted for the centre, that's not something that we're driving.

Mr. Schuler: So a Keeyask community centre that was to house access programs for community

members to learn about traditional lifestyles and preserve them, was supposed to be part of the agreement. Am I to understand that Manitoba Hydro simply forwarded the \$4 million-plus without any construction, without any contracts, without a builder, without anything; the money was just handed over and that's it.

Mr. Thomson: The funding was advanced in accordance with the agreement. The band determined—and we were involved in how they had decided to earmark the funding for the project or for the various offsetting programs. But we're not the—we don't have oversight over the construction contracts. That's a band responsibility.

Mr. Schuler: No, I think the committee understands that, that Manitoba Hydro, the board of directors and the staff don't take hammers and saws and go out and build the Keeyask Centre, but they are the individuals that are forwarding the funds. And I guess the question that the committee has is: Was there any oversight in regards to the money that potentially there would have been a partially built building or there would have been a foundation and then monies would have been forwarded? Was it—because I believe, as part of the agreement, Manitoba Hydro was going to fund a community centre, and from what I understand, the money has flowed and, to date, there is no community centre.

Mr. Chomiak: Yes, Mr. Chairperson, maybe I could help explain this to the member. It's similar to if the—Manitoba Hydro were dealing with a municipal government and the funds were extended for purposes of a road building project or some other related project. Funds would be directed towards that municipality and they would undertake that construction. They would undertake the tendering process. They don't undertake the a—the process. Manitoba Hydro would fulfill its contractual obligation to the community or, in this case, to a First Nation by providing the funds to them in regard to mitigation, in regard to matters of contractual matters, or in regard to matters as they relate to previous contact between Hydro and the particular group. So it's a normal practice for Hydro to extend funds to all kinds of organizations and structures, with respect to agreements that are entered into. But Hydro does not have the legal responsibility for the actual contract or the actual utilization of the funding that results as a consequence of that. I—it's a misunderstanding, I think, that occurs quite often in public matters of this kind, so I'm very appreciative

of the opportunity to clarify the distinction in this regard.

Mr. Schuler: I understand there were also two amounts, in regards to the community centre for \$750,000 for 2011 and for 2012 to operate the centre. Seeing as the centre has not been built, was that money forwarded?

Mr. Thomson: I'd have to check that and follow up.

Mr. Schuler: Yet, I asked earlier on have all payments as required under the GAA been made and the answer was yes. *[interjection]* Do you want to be recognized, Dave? *[interjection]*

Mr. Thomson: Yes. I think I believe the words I used were—as far as I understand—they were advanced in accordance with the contract, or the agreement.

Mr. Schuler: So, the \$4 million to build the centre and the additional \$750,000 for 2000—*[inaudible]* 2012 to operate the centre, the question is: Has that money been forwarded?

Mr. Chomiak: Yes. I think the president has indicated he'll undertake to find out the details of that particular transaction. If the member's trying to play an old gotcha moment to start out in a general question, then go down to specifics with respect to the specific distribution of funds as it relates to a contractual obligation, I don't think that's really appropriate. The president said that he'd provide the information and he will.

Mr. Schuler: Well, perhaps the minister should know that this is hardly a new issue that's come up. This has come to Manitoba Hydro and I believe even to the minister, so this is no gotcha moment. This is hardly news. Everybody has these documents and that the minister or the—or Manitoba Hydro wouldn't be ready for the question is surprising. I would have thought this would have been an easy answer, would've come forth and should have been quite easy. And the minister asks why I ask these questions. For accountability, minister. That's why they're asked. It's called accountability, and that's one of the things why we have these committee meetings. And it's—yes, I know it's uncomfortable for members at this table right now. It should be. I mean, there's money that was forwarded; there is—*[interjection]*

Well, people at this table are very defensive on the other side, and I understand the member for Kildonan does get a little defensive at times, and that's—we appreciate that because money has been

forwarded and it hasn't been built and I think individuals on that reserve have a right to answers, as does—as do ratepayers for Manitoba Hydro, and this is hardly a new issue—*[interjection]*

* (21:00)

If the minister has questions, I would suggest he raise his hand and start asking them just like anybody else.

So seeing as there's no answers in that I will go on to my next question.

Mr. Chomiak: Point of order. The member just asked—

Mr. Chairperson: Point of order?

Mr. Chomiak: Yes.

Point of Order

Mr. Chomiak: The member just said there was no answer to that question. I think the president said he'd take it as notice that he would provide the answer to that question. So I think the member's inaccurate with that, and I think in all due respect, that the member not ought to put inappropriate information on the record.

Mr. Chairperson: There is no point of order. This was just a part of discussion, and let's leave it like that.

* * *

Mr. Schuler: I thank you. We will defer to the minister that a non-answer is an answer and we'll wait for the proper answer in time, and we look forward to that.

A document from the accounting firm Grant Thornton suggests that there is considerable sums missing from the band's capital account for the Keeyask project. Has Manitoba Hydro been made aware of this document? Does it exist?

Mr. Chomiak: I think it'd be appropriate that the member would ask that question of the appropriate authority; that is the band council who are responsible for these funds.

Mr. Schuler: Seeing as this money is ratepayers' money and it is meant to go to help out individuals on the band, I think this is a very time and place to be asking questions, and, you know, I can appreciate how uncomfortable this can be for member for Kildonan; others, I appreciate that. I mean, this is a

uncomfortable place to be going, but I think it's relevant, I think it's important. It's a lot of money.

I think the negotiations were made in good faith and, frankly, individuals probably were really looking forward to having this community centre, were looking forward to having all kinds of projects, and they're not there right now, and for someone to sit here and to ask the question: Where is it and where is accountability, and how far does Manitoba Hydro have a say on ratepayers' money? I think that's all legitimate; I think that's fair. And I know or I suspect there would be members opposite on the government's side that would rather these questions not be asked, but I think they should be.

So, again the question is: A document from the accounting firm Grant Thornton suggests that a considerable sum is missing—the band's capital account for the Keeyask project, monies that came from Manitoba Hydro. Is Manitoba Hydro aware of this allegation?

Mr. Chomiak: Mr. Chairperson, I think the member is making an allegation; I think we're all aware of this allegation. The question and the allegation is whether or not a particular, as I understand it from what the member has said, is whether or not some funds that are under the care and control of a band council, have been appropriated or misappropriated. I do not have say over how a band council deals with its funds when they are in their hands. If the member has a question, he ought to ask it of the particular authority that has responsibility for the funds, which would be the band council, which is what the federal government does with respect to funding to band councils.

To try to make a case that somehow because Hydro expended funds and these funds were used for one purpose or another purpose, is not something that I think Hydro can deal with as a result of its contractual responsibility. So if the member wants to chase it down, more power to him. I think it would be advantageous to all of us to be really comfortable here and to have answers to the question. But you're asking the wrong people, Mr. Chairperson.

Mr. Schuler: When Hydro issues cheques like they did under the GAA, what kind of safeguards are put in place for ratepayers?

Mr. Chomiak: The books are audited, auditing procedures are followed. The cheques are dealt with according to the procedures of the audit as it's in

place and as it is in any other activity. I don't know what the member's getting at.

Mr. Schuler: An individual from Split Lake named Solange Garson, a councillor, began suggesting publicly in 2009 that Hydro dollars were misspent in her community. Information was sent to Manitoba Hydro.

How did Manitoba Hydro respond to this allegation internally?

Mr. Chomiak: The member indicates that a band councillor, at a particular community, had questions about the appropriateness of the utilization of funds by the band council. Do I understand that question correctly?

I don't know how we, as a government, can deal with that particular allegation.

Mr. Schuler: One of the accusations Ms. Garson made is that a consulting company working on these projects, called Hobbs and Associates, had cut a cheque—had cut a number of cheques to band members for attending meetings, Manitoba Hydro meetings.

How did you—how did Manitoba Hydro ensure that Manitoba Hydro dollars weren't being used to pay people to attend meetings? And I know this allegation came to the corporation. This isn't something that I've—this isn't a gotcha moment. This isn't something that's been, you know, all of a sudden I threw on the table. These issues have been out there, and the question is, how is Manitoba Hydro dealing with this allegation?

Mr. Chomiak: I think Manitoba Hydro has a practice of paying for some various activities and, on occasion, there is remuneration paid for elders and chiefs and others to attend meetings. And I think, in general, that policy has helped in terms of the negotiation process, and the process of having debate and the opportunity for community members to participate in meetings. So, in general, that practice, the practice of providing remuneration to members, just like remuneration is provided to board members who travel to Winnipeg to attend meetings, has been done in the past and I think will be done in the future with respect to attendance at meetings.

With respect to the specific allegation the member is making at this table, I think the member should—the appropriate venue and the appropriate forum for a member to ask that question, just ask the

band council who are responsible for the expenditure of funds.

Mr. Schuler: This is Manitoba Hydro ratepayers' money that we're asking about. That's the only money we're interested in here at this table. That's the only thing that we would like to see some accountability for.

And I think, you know, when I look at the financial statements and the amount of customers that participate, not just in Manitoba Hydro on the electrical side but also the natural gas side, a lot of Manitobans are, you know, getting services from Manitoba Hydro, and it's not unwarranted for them to ask a question, for them to know that there's an oversight at the Manitoba Legislature and that questions are being asked. And it is ratepayers' money. It is money that comes from ratepayers and in good faith is given to a board of directors and paid staff to do the right things.

We've—we heard an hour and 20 minutes about what Manitoba's Hydro is doing and the things that they would like to see happen and probably would—good thing if 1.2 million Manitobans sat through that presentation. I'd probably make it a little shorter, but it would be good for people, all Manitobans, to hear that presentation, to hear what Manitoba Hydro is doing with their ratepayer dollars. And it would be no different if they were sitting at this committee, that they would want to know what's happening with these monies.

And we've mentioned several of these cases, and there is another issue, and that is—and this was published in the Winnipeg Free Press, so I'm surprised there isn't a better answer forthcoming. Solange Garson appeared in the Winnipeg Free Press, 2012, and suggested the same consulting company gave her \$700 cash to attend meetings. And this—and the allegation is that it's paid to band members. In fact, she even provided a cheque for a thousand, two hundred and twenty-five dollars, a stub. I know Manitoba Hydro got that, and band members are paid to go to Manitoba Hydro meetings. And is that troubling for the corporation?

* (21:10)

Mr. Chomiak: Again, the member is talking about allegation is—as he indicated, who paid the cheque, from where the cheque came, where the money came, what was the purpose of it. Can he provide—because, having done a little bit of criminal law in my lifetime and having been a part of this

Legislature for a number of years, I think it's spurious to make allegations at committee about events unless one has the actual facts, or to do it in a second or third person, as the member is doing. The member hasn't provided any evidence or any information whatsoever about particular issues except the newspaper article that he's referencing. And it's not under the auspices of this committee as to how band councillors deal with their own funds. If the member wants to deal with that, he certainly can make reference with the federal government, who have responsibility for band governance on First Nations.

Mr. Schuler: Actually, to the minister—she sent the cheque stub. Where it came from, who it went to, the date, how much it was, and I suspect a package like this even went to the minister's office. I know it went to Manitoba Hydro—[interjection]—I know that the Winnipeg Free Press saw it, so I—minister now is startled and shocked that there is this information. They—it's there, and I can reach over the table and give him a copy. I don't know if I'm allowed to do that or if I have to table it through the Chair. I will—I don't want to break any rules here.

The question is, is Manitoba aware—I know they've been made aware of this—but is Manitoba Hydro aware that Hydro funds are being used to pay people living on reserves to attend public meetings? And is that Hydro policy?

Mr. Chomiak: I already clarified that Hydro does remunerate individuals to attend meetings, and that's been a practice that's—it's been done, and it's not a lot different than board of directors coming down to Winnipeg and attending meetings, and on occasions remuneration paid in order to attend meetings on matters of public consultations.

And I wonder if the committee could take a five-minute break for the purpose of people's comfort?

Mr. Schuler: Five-minute break suggested.

Mr. Chairperson: That five-minute break is suggested. Is it agreed? [Agreed]

The committee recessed at 9:12 p.m.

The committee resumed at 9:18 p.m.

Mr. Chairperson: The committee resumes.

Mr. Chomiak: Just for edification of everyone in the room, I think we've talked about, perhaps, committee

extending until 10:30 and rising at 10:30. Is—are we in agreement?

An Honourable Member: Agreed.

Mr. Chomiak: And I have also promised to limit some of my responses in order to expedite this process.

But I do want to indicate on a separate matter, Mr. Chairperson, I've just in front of me a cheque or a stub that's been tabled by the member which has on its top Hobbs and Associates Limited, and it's a cheque to an individual. It doesn't say Manitoba Hydro on this cheque. So my point to the member is, again, my confusion is the line of questioning insofar as I've been in a lot of trouble with some entities for decrying the amount of money we pay to consultants and lawyers to do work. But, unfortunately, consultants and lawyers have an industry in terms of processes. So money is paid to lawyers and consultants in order to provide capacity to people and things. This cheque paid by a consulting company to an individual is a matter that the member should take up either with the consulting firm or the band council who are responsible for this funding not Manitoba Hydro.

* (21:20)

Mr. Schuler: And, again, I—there are other issues I do wish to talk about today.

But insofar as the cheque, I think Solange was making the allegation that this was ratepayer funds that had been transferred to Hobbs and Associates. They were using the money to pay members, band members, to go to a Hydro information—or public meeting, and that was the point she was making. But I did listen carefully to what the minister said, and he said very clearly that yes, Manitoba Hydro does pay for people to go to meetings.

Included in the allegations that were made were flat-screen TVs and gifts and all those kinds of things that were brought forward and were given out at meetings, where then a Hydro representative would make a presentation and then gifts and prizes were awarded, and seemingly along with cheques. And I just—you know, this is the first time I've been the direct critic responsible from the opposition side to Manitoba Hydro, maybe I don't know that that is common practice, and if that's the way it is, okay. That's—you know, and that—from what the minister said, that's the indication I have, is that no different than paying for members to be on Manitoba Hydro, I think was the example. So individuals are paid to

come to meetings and I guess gifts and prizes are part of that. I wouldn't know, and if that's the policy, then okay, well then I learned something new, if that's what the minister was saying. If he could confirm that then we'd move on.

Mr. Chomiak: I can confirm that member doesn't know, and it is not the appropriate line of questioning with respect to this. And if the member wants to do a press release or something on this, he can. But it's very clear that the member has not connected the dots from A to B. He's making spurious allegations. I have indicated already that Hydro does remunerate for attending meetings in some cases.

Go to a northern community—if the member has occasion to go north of Winnipeg and attend the communities, he will see that sometimes transportation is a difficulty, sometimes attendance at meetings is a difficulty, there's usually feasts that are held, there's usually gifts that are exchanged; it's an entirely different culture than down here in the south.

Having said that, Mr. Chairperson, he ought to take up his concerns with the appropriate authority if he's truly interested—truly interested, in the concept of accountability. I share that same issue with the federal member Minister Toews. We've had many concerns and discussions with respect to how you deal with accountability. But go to the appropriate body, not trying to make a political hit at a Crown corporation because of their doing business with a municipality, with a First Nation or with a contractor.

Mr. Schuler: How silly of me, mister—through you, Mr. Chair, to the minister. I thought that Manitoba Hydro, which spends ratepayers' money in these instances, that this was the right place to look for some accountability. How silly of me—[interjection]—and the minister agrees with me.

I can't think of any other place I would go. It's ratepayers' money—it's the ratepayers of Manitoba Hydro that pay this money, and at least have had some answer from Manitoba Hydro other than the political master—would have been nice, but I take it that's not going to be forthcoming, so a couple more questions and then we'll move on to other issues.

And that is—my question to the corporation is, how much has Manitoba Hydro spent on process and negotiation costs in total for Bipole III?

Mr. Thomson: I think in the presentation materials I'd given an indication of the total costs that have

been incurred to date for Bipole III. The lion's share of those have been dealing with—well, I shouldn't say the lion's share of them, I'd have to undertake to get you a breakdown of the process-related costs, but, you know, we've been in community consultations and the environmental permitting piece of that, which require negotiations and consultations with communities and input from the communities for over four years. So the costs leading up to now have been largely around regulatory and other process costs.

Mr. Schuler: What are the process and negotiation costs for—what have they been to date for Keeyask, Wuskwatim and Conawapa?

Mr. Thomson: Can you be more specific?

Mr. Schuler: How much has been spent on lawyers and consultants for the Keeyask, Wuskwatim and Conawapa projects?

Mr. Thomson: I'm going to have to undertake to provide that information.

Mr. Chairperson: That's okay.

Mr. Schuler: 'Shamattawatin', and I think I pronounced that right.

Floor Comment: Shamattawa.

Mr. Schuler: Shamattawa. There was a trust agreement between Shamattawa and Manitoba Hydro. I understand that that fund has been drained. Is that correct?

Mr. Chairperson: Mr. Thomson. Honourable minister, all right.

Mr. Chomiak: As I understand it, Mr. Chairperson, it was a trust arrangement between Hydro and the band that the terms with respect to Hydro and the band have been fulfilled. The disposition of the trust and the trust assets are matter for discussion with the band.

Mr. Schuler: However, what's confusing for the committee is the band drained the funds less than two years after receiving the money yet the same agreement notes the trust could not be drained without Hydro's permission. Did Manitoba Hydro give Shamattawa the right to drain the funds two years after it was put into the trust?

Mr. Chomiak: I have to correct myself, my last answer was not correct. I was dealing with a different matter of trust arrangement. This trust arrangement is I understand between the band—

Chemawin—the matter the member is referencing is Shamattawa. Chemawin?

Floor Comment: It's Chemawawin.

Mr. Chomiak: 'Chemamawin.' In that instance it's a trust agreement between the band council and the community not Hydro.

Mr. Schuler: The money placed into the trust was forwarded by Manitoba Hydro. Ratepayer's money was put into that trust and as part of the agreement only the interest was supposed to be used unless there would be some money for the band on a yearly basis, and the only way that that account could be drained was they had to have Manitoba Hydro's permission. It's a simple question. Did Manitoba Hydro give permission for that account to be drained?

Mr. Chomiak: Trust arrangements entail the establishment of trustees who are then responsible for filling conditions of the trust. In this instant as I understand it Manitoba Hydro was not a trustee responsible for the allocation of the funds in accordance with the trust arrangements.

Mr. Schuler: From the documents that were provided for Manitoba Hydro the trust was very clear. It was supposed to spend only the interest, and at any time that the account was to be drained they needed permission from Manitoba Hydro. The question is simple. Did Manitoba Hydro give permission to drain that account? I take it we are not going to get an answer to that.

* (21:30)

Mr. Chomiak: Let me give an example to the member. If the member were to set up a trust arrangement for his godchild and would appoint X, Y and Z as trustees, they would be—you would then transfer the funds to their responsibility to release the funds according to trust conditions. In this case, Manitoba Hydro is not a trustee. Manitoba Hydro provided the funds into a trust and the trustees were responsible for the disposition of the funds as I understand it pursuant to most trust agreements. Therefore, there's no legal responsibility on the part of Manitoba Hydro as it relates to the trust agreement. The information the member's providing is inaccurate.

Mr. Schuler: Is it possible that we could get a list of all the trust funds Manitoba Hydro has funded over the past 10 years and their amounts?

Mr. Chomiak: I'm not sure if that particular aspect can be provided for 'proprietary' and other reasons, but I—to the extent that it can be provided, I don't think there'll be a problem with Manitoba Hydro providing information that's available. I'm looking to my fellow lawyer on the panel as to whether or not that's in violation of any kind of arrangement, and I'm thinking of my legal terms.

But I think that it would be probably difficult to carry out negotiations and provide funding for various applications if every time you did that you had to outline—well, I'll have to take that as notice.

Mr. Schuler: Moving on, I understand that Manitoba Hydro International is a division within Manitoba Hydro. Just to be very clear for the committee, who owns Manitoba Hydro International?

Mr. Thomson: Manitoba Hydro-Electric Board; it's a wholly owned subsidiary.

Mr. Schuler: Who does MHI report to?

Mr. Thomson: The board of directors of MHI, who are, coincidentally, the board of directors of the Manitoba Hydro-Electric Board.

Mr. Schuler: So, as—if the board is—new board is appointed to Manitoba Hydro, they're automatically appointed to the board of MHI, is that correct?

Mr. Thomson: Yes, there's a process for that appointment. But, in fact, yes.

An Honourable Member: Technically not but, yes, in practice.

Mr. Schuler: Is there a financial report that's presented to the board that MHI produces?

Mr. Thomson: There's quarterly reporting to the board, and then the results of the—of MHI are consolidated up into the accounts that are publicly available for Manitoba Hydro.

Mr. Schuler: Is there a line-by-line accounting? Is there something more substantial than what we find? Fact, if we go to the Manitoba Hydro—the most current Manitoba Hydro report, page 49, we notice that Manitoba Hydro International gets seven sentences and then three lines in a financial statement that says revenues of 31.8 this year, expenses 27.9 and a net income of 3.9. Is that all that the board would see of MHI?

Mr. Thomson: No, it's not. There's more detailed quarterly reporting, but my recollection is that the

accounts are audited to the level of materiality of the parent company—corporation, which is why the disclosure in the annual report is at this level.

Mr. Schuler: Who are the paid staff of MHI?

Mr. Thomson: I believe we've got 65 staff in MHI.

Mr. Schuler: I don't think the committee realized there was that much staff. Perhaps we should narrow that down a little bit. Who are the senior management of MHI?

Mr. Thomson: The managing director of MHI, which is equivalent to a division manager in the parent company, is Paul Wilson.

Mr. Schuler: I'm sorry, I did not hear that name. Could we have that name again?

Mr. Thomson: Sorry. Paul Wilson.

Mr. Schuler: I take it there—besides Paul Wilson, there are a few other senior management. Is it possible to get a list who the senior managers are and, again, we don't expect 65 staff, but, like, in the annual report we receive from Manitoba Hydro we get to see who the senior managers are. Is it possible to get just the senior managers off of MHI's business?

Mr. Thomson: I believe we can do that just in terms of—again, I had mentioned that from a reporting line equivalency Mr. Wilson is equivalent to a division manager who, in the parent company, would report to a vice-president. The managers that report into Mr. Wilson would be equivalent to managers reporting to a division manager. So we can—the senior managers reporting in, we can provide those names.

Mr. Schuler: Where's MHI headquartered?

Mr. Thomson: It's here in Winnipeg in the West End off of Kenaston.

Mr. Schuler: So it's not headquartered with one of the two major Manitoba Hydro buildings. It's not the one on Taylor and it's not downtown.

Mr. Thomson: No. It's in premises on—at 211 Commercial Drive.

Mr. Schuler: I understand that MHI has been working with Nigeria and the—last year MHI was awarded a contract to run the country's public transmission company for three years and prepare it for privatization. That seems to be up in the air whether or not they have the contract or not. It seems to be in flux.

Could Manitoba Hydro tell us where that negotiation stands right now?

Mr. Thomson: We have a valid contract to operate the utility for the transmission company in Nigeria for three years. I'm not aware that the transmission company is being privatized. That's equivalent to a Crown Corporation in Nigeria. There are—

Mr. Schuler: When did the—I take it the decision to get into a contract with the Nigerian government, TCN, I take it that went to the board of directors. When did that go to the board?

Mr. Thomson: Subject to check, I believe it was the last June's meeting.

Mr. Schuler: And, you know, I appreciate the minister indicating to myself that, you know, going through Google seems to be the place to go for some of this information. I would suggest to the minister that's the only place we can go to get information on this particular operation of Manitoba Hydro because seven sentences in the annual report are not enough information. In fact, I would point out to the minister for his edification—and he's been here about as long as the two bison down on the staircase down there—'97-98 annual report, same division of Manitoba Hydro has over two pages explaining what the division does and where they're involved and who's involved, all the rest of it, and here we get seven sentences. So, yes, Google's where we went. In fact, it's international financial newspapers that are reporting on it and I think they're fairly credible, and in the—*[interjection]*

The minister asks if he can answer that, and, absolutely. As soon as I'm done with the question the minister is more than free to answer it.

And if the minister would read some of the newspaper articles he would find out that, yes, the concept of privatization, it seems to be what the conflict was about. In fact, at one point in time Manitoba Hydro's MHI was not allowed in the building because there was an issue about labour and who was going to get laid off, and the minister involved had to get involved locally and say no jobs would be lost. I mean, clearly, it's a fairly controversial move, and I understand there are another 17 energy corporations or entities that are also up for tender for management contracts.

My question is: Is Manitoba Hydro looking at bidding on any of those 17 contracts?

* (21:40)

Mr. Chomiak: I welcome this opportunity. Most recently the federal minister responsible for the then CIDA was in Saudi Arabia with MHI, complimenting MHI on the—on work they did on the contract in Saudi Arabia. In fact, most of our—many of the contracts entered into by MHI have been with the Canadian international development corporation. And the federal government—been very supportive. In fact, we're having some discussions in the next little while about a Paraguay venture at the bequest of the federal government for assistance in terms of hydroelectricity and the applications.

So it's a very good news story, and I commend the member for recognizing that, and the—I think we should make more of the fact that Manitoba Hydro is recognized internationally as a very sound and capable organization and has expertise in a lot of fields and has been recognized, as I say, by the federal government and others. And I think that's a good suggestion, that perhaps next annual report we ought to put more about the activities of MHI in the annual report so that all Manitobans are aware of the work that's being done, as the federal government has recognized.

Mr. Schuler: The minister, the member for Kildonan, is coming my way. And, you know, I'm really pleased that he's coming my way because it's such a—yes, you know it takes me a while to wear him down and finally I get him to the point where he's actually agreeable.

You know, if this is such a good story, why is there seven sentences on page 49 of the annual report? Why is it that there isn't one newspaper article in a local Manitoba newspaper? Not one.

If this is such a good operation, and we're in Saudi Arabia and we're in Dubai and we're in Paraguay, you know, why is it that we have to go to Google to get international newspapers who cover this story, who cover this—you know, perhaps there should be more done on this. And you know what? I'm glad the minister's going to take the opportunity to take the sage advice from the member from St. Paul.

But moving on, I would like to ask, did the Manitoba Cabinet approve the contract between MHI and TCN?

Mr. Thomson: No. The Cabinet of the government?

An Honourable Member: Yes.

Mr. Thomson: No.

Mr. Schuler: Was the minister briefed on this contract?

Mr. Chomiak: I'm not sure what the member is talking about. What contract is the member talking about? It's not a normal pattern for Hydro to bring contracts to the Cabinet for confirmation. I'm not sure what the member is getting at, unless he's got some slippery slope he's trying to catch us on.

Mr. Schuler: This government's on one perennial slippery slope, and it's just—it's like low-hanging fruit. No, there—these are simple questions that we're asking about a company that gets seven sentences in the annual report, and we just want to know about MHI and their involvement with TCN. And TCN, just so the minister knows, is the transmission company, and I know the minister should be reading his briefing notes a little bit better and then he would be up on these things.

So the question actually is, did the board brief the minister on the negotiations between Manitoba Hydro International and the contract with the Transmission Company of Nigeria, or TCN?

Mr. Chomiak: If the corporation would have briefed the minister on every contract, I don't think we would be able to do any business. I think that would be political interference, and I certainly wouldn't want to do that, Mr. Chairperson.

Mr. Schuler: You know, the minister is right; we wouldn't want him interfering. However, the question was, was the minister briefed?

Mr. Chomiak: No.

Mr. Schuler: Has the contract been signed between Manitoba Hydro International and TCN?

Mr. Thomson: Technically, I think that the contract was signed between Manitoba Hydro Nigeria, which was a corporation set up to conduct business and pursue the contract. But yes, it's been signed; it's been in operations. We've been delivering under the contract and invoicing and collecting.

Mr. Schuler: And how far is the company into the three-year contract?

Mr. Thomson: We launched last August, so about two thirds of a year.

Mr. Schuler: And there were 17 other energy corporations within Nigeria, some electrical—I think it's seven electrical and 10 energy providers, and I might have the numbers reversed—but is Manitoba

Hydro International looking at bidding on any of those?

Mr. Thomson: I think what you're referring to, the—Nigeria is privatizing a number of its generating assets, so they're selling off some generating companies, and, no, we're not planning on—we don't buy assets in other countries. The nature of the services that we're providing are consulting.

Mr. Chomiak: On the MHI website, it says MHI's been awarded a management contract by the Transmission Company of Nigeria. The operation of TCN includes, but is not limited to, the key three functions of market operator, system operator and transmission service provider. Throughout the term of the contract, one key objective will be to reorganize TCN so it should become—allows it to become an entity. MHI refers to turn—expects to turn TCN into a technically and financially efficient, stable and sustainable company, a company that will be market driven and capable of utilizing its maximum generation capacity and then distributing the energy throughout Nigeria 24 hours a day, 365 days a year. To do this, MHI will have to focus on developing the proficiency of legal—of local personnel. This project is expected to commence in July 2012.

I think it was hidden on the MHI website.

Mr. Schuler: And two things impress me about the minister: (1) He actually knows how to use a PDA, and (2) he actually knows how to use Google, which he criticized the member for St. Paul just shortly about.

And I did read that, but I understand that there were a lot of complications with locals and that Manitoba Hydro International, at one point in time, wasn't allowed into the building. So just for the minister [*interjection*]-and I'll give him all my articles so he can read them tonight and he can get up on what's happening with MHI. I think it's important as the minister that he get some of these documents and read them, and maybe he could use a briefing. He'll—it probably wouldn't hurt. You know, he'd be up to speed on what's happening.

My question is: Africa's top oil producer plans to sell majority holdings in state power utilities as it seeks investments to reduce blackouts. The program includes six state-owned electrical producers and 11 heating utilities to be sold this year. Nigeria will announce the winning bidders for 17 state-owned power corporations in October and so on, so forth.

My question is: Is Manitoba Hydro looking at bidding on being the management for any of those corporations?

Mr. Thomson: At present, I'm not aware that they're looking for management. The successful bidders presumably have plans on how they want to operate the businesses that they're buying. So it's not currently in the marketplace.

Mr. Schuler: So there's no joint effort between Manitoba Hydro International and any other company to move in on any of these companies with Manitoba Hydro being the management side of it?

Mr. Thomson: No.

Mr. Schuler: Manitoba Hydro Utility Services, I take it that's a—also a private business within the corporation?

Mr. Thomson: It's a wholly owned subsidiary providing mainly meter reading services.

Mr. Schuler: And who's on their board of directors?

Mr. Thomson: Has the same board.

Mr. Schuler: Why was the decision made to split off a separate company to do meter readings? Was that just for expediency's sake? Is it a good business practice? Like, why would Manitoba Hydro not just do it?

* (20:50)

Mr. Thomson: As I understand, it's an historic artifact that predates the acquisition of Centra Manitoba. So the company provided meter reading services for what was then an outside entity and there had been plans to try and expand that service provision beyond those two companies. So when—after we acquired Centra Gas Manitoba, we continued to provide those services. There's some—there's a differentiated workforce and there's a separate labour agreement.

Mr. Schuler: Question, who owns maintenance services in the oil fields? *[interjection]*

It's maintenance services in the oil fields. We were just wondering, is that an arm of Manitoba Hydro, is that—and we're getting a lot of confused stares. If—*[interjection]*—and the minister is asking me questions again.

Perhaps if we could take a one-minute break, and I will see if I can find the appropriate document. If we—just one minute.

MHI maintenance services—Manitoba Hydro International maintenance services can design and install customer-owned primary distribution transformation and then provide maintenance services.

Question is, where does that fit with—where does that come within the corporation?

Mr. Thomson: Subject to check, I believe it's a division, not a separate legal entity from MHI. So it's a—it carries on as a service provider.

Mr. Schuler: So it falls under the scope of Manitoba Hydro International?

Mr. Thomson: That's my understanding.

Mr. Schuler: And all responsibility for that would be Paul Wilson? He would—just to be very clear, so we don't go back too much—back and forth too much. So, Paul Wilson, who basically oversees MHI, would also then be responsible for MHI maintenance services?

Mr. Thomson: Yes, I believe that's correct.

Mr. Schuler: Again, under Manitoba Hydro International Limited, like, do—does it have its own set of books? Does it do its—like, I don't know if it's a separate division? Does it have its own manager?

Mr. Thomson: Yes, MHI is a separate legal entity so it's required to keep its own set of books, and Mr. Wilson is the head of that entity.

Mr. Schuler: And you know what, the minister has stated very clearly, and I suspect at this table he has more clout than anybody, that perhaps more of this could be 'expended'—or *[interjection]* expanded upon, because, I mean, these are clearly divisions out there, they're business out there, doing business. And just for the committee's sake and for accountability, it would be nice to see a little bit more on them and what we're doing with these entities.

I have probably another two hours' worth of questions, however, part of the agreement usually is, with members on this side of the table, that the Leader of the Liberal Party be given some time to ask questions. So I'm going to defer to him—he has about 15, 20 minutes, and then I'll finish up. Unless there was—*[interjection]*.

Floor Comment: Mr. Chair, could I—

Mr. Fraser: On that same point, MHI's financial statements are audited by Ernst and Young, the auditors responsible for Hydro, and they are also

reviewed by the provincial auditor as well. So I mean there is a—there certainly is an accountability process in place and audited financial statements, and they become part of the consolidated statements of Hydro, and the government, ultimately.

Hon. Jon Gerrard (River Heights): My first question to Mr. Thomson deals with the pricing of gas. In your presentation, you showed that the rates were staying level and maybe just going up a little bit recently. But the price of gas, as I understand it in the States, has actually gone down. Does that mean that, you know, Manitoba prices have stayed above what they would be on the sort of general international market?

Mr. Thomson: No, and, in fact, more recently, the—like, gas prices fell to below \$2.00 a million BTUs in the US, and more recently it's been up in the mid-threes. Our current price of—at 10 cents a cubic meter, I think, converts to about 2.80 MMBTUs. So—I mean our—we don't—we reset pricing quarterly, based on our one-year forward expectation of pricing and our actual experience. So how we've tracked against the plan through a cost-recovery mechanism so we're actually priced, I believe, below current NYMEX pricing and below current spot AECO pricing for natural gas. But there's a—we either lead or lag those spot prices.

Mr. Gerrard: What's the—there are two wind energy fields that we have in Manitoba. What's the sort of approximate cents per kilowatt hour that that energy—or wind energy is being generated at?

Mr. Thomson: The pricing of that is proprietary. It's—so it's subject to confidentiality under the purchase agreements for that wind over the long-term pricing of the contracts. What I can tell you, it's some of the lowest procured pricing for wind in North America.

Mr. Gerrard: Now in the Wuskwatim dam, what would be the cost of energy generated through Wuskwatim dam currently, in terms of cents per kilowatt hour?

Mr. Thomson: If I'm not mistaken, I had a question on that last year. And I believe—I thought I had an undertaking to follow up on that last year. If you can bear with me for a second, I'll see if I can pick it up.

The number 7.2 cents a kilowatt hour is popping up in my mind but I can't find the reference to it right here. So I'll confirm that back to you.

Mr. Gerrard: In your presentation—in the presentation that you made you said that at the current rate of replacement, it would take 200 years to replace—and I think you said the fleet. Just—can you clarify what you were referring to? I think you were talking about the hydro infrastructure.

Mr. Thomson: I was referring to poles, the poles in our system.

* (22:00)

Mr. Gerrard: Is that both the wooden poles and the pylons or—?

Mr. Thomson: I believe that's the wooden poles.

Mr. Gerrard: Okay. Thank you.

There—in the current estimate you provided for 2022 you said that Manitoba will run out of capacity in terms of energy generation. Is that considering no new wind energy? Could that change if there was significant wind energy generated?

Mr. Thomson: On a capacity basis that's—that would still hold true even if we added wind because wind is not a capacity resource; it's an energy resource, so we would have to—and we don't have plans currently to add winds over—in the intervening time frame. So under a preferred development plan we've determined that it's not economic to add wind at the present time, but even if we were to add wind as a bridging energy resource we couldn't count on it as capacity so we would have to add some firming resource in addition to that in order to make it a capacity addition.

Mr. Gerrard: Okay.

In the graph which you showed which dealt with the variability of water supply, one of the interesting things looking at that graph is that there appears to be a bit of a trend to increased water supply, notably, for example, the last 10 years probably the average would be running about 120 per cent, and if you look at the 1910-1940 it would probably be running closer to 80 per cent. Is that something that, you know, has been notable?

Mr. Thomson: There—we continue to monitor that and we're looking at climate change and what's—you know, what information's available to us that may impact or influence our planning as we move forward. Currently the best information that we've got available is that the expectation based on the data that we've reviewed is that we're expecting that it will be generally a bit warmer, a bit wetter in certain

parts of the province but there will be more variability as we move out to the middle of this century. *[interjection]* I'm with you there. But I don't know that there's a—you can put a line of best fit or rush an analysis through this yet and make any concrete determinations, particularly over just the few recent years. And there's evidence in the geologic record beyond—prior to where we've kept detailed hydrology records that suggest that there have been more significant droughts than we've experienced here, and there's also been high water periods over the 200 years pre-dating this.

Mr. Gerrard: I mean it might be worthwhile having somebody in Manitoba Hydro actually do that calculation mathematically and see if there is a trend. Certainly I think that what you're referring to in terms of the potential for increased precipitation would be increased precipitation in the Red and the Assiniboine basins coming in through the Red River into Lake Winnipeg compared to other basins, particularly—well, for example, the Saskatchewan basin. Is that correct?

Mr. Thomson: Yes. My recollection is that of those predictions the Winnipeg river system is likely to benefit from higher precipitation levels than the Saskatchewan river system coming in from—through from across the prairies is likely to be a bit drier.

Mr. Gerrard: On page 68 of the annual report there's a reference to the fact that you've capitalized some of the interest. Could you tell us the process by which you decide whether you're going to capitalize interest and how much you would capitalize?

Mr. Thomson: Yes, we capitalize interest on projects under construction at the weighted average cost of debt during the period of construction. So to the extent that we're borrowing to finance the capital projects, we do use the weighted cost of debt, and as we add new debt that adjusts the overall weighted average of the cost. So we'll establish a level each year, a rate that we're using to capitalize interest against the projects.

Floor Comment: Just as a further explanation perhaps you could talk about why—

Mr. Chairperson: Dr. Gerrard.

Mr. Gerrard: —why specifically you would capitalize the interest on new projects as opposed to other activities.

Mr. Thomson: Well, we follow generally accepted accounting principles. So for projects under

construction, prior to them being put in service or—it's accepted practice to capitalize the interest while we're building them and before they're putting—put into revenue-generating service. So it's a cost of building the project, and that's the only reason why we would capitalize those costs.

Mr. Gerrard: How long is that capital sort of amortized over then?

Mr. Thomson: It depends on the nature of the capital. So the depreciation rates will vary depending on the nature of the plant. A dam, I believe, is 67 years. The units within the facility, the turbines, would be a lesser period of time. Transmission lines would be, you know, 50-year period. So it's specific to the assets. We accumulate the hard costs in the—against the asset classes and then the interest capitalized during construction against—relative to those asset classes, and then once they enter service, whatever depreciation period that's related to that class.

Mr. Gerrard: So from 2008 to 2012, the amount of interest that was capitalized increased from \$51 million to \$199 million. That would be primarily because capitalization related to the Wuskwatim dam project, is that correct?

Mr. Thomson: That would be a major factor, but there are other projects that would also attract capitalized interest if they're—I believe if the construction period extends beyond—well, it's beyond a certain number of months and which I can't recall off the top of my head.

Mr. Gerrard: Can you tell us in terms of Conawapa, I think you indicated that the plan was to—you can give us the construction start date, but it has to go through process of First Nation engagement, an environmental assessment. Can you give us a timeline for those steps for Conawapa?

Mr. Thomson: Yes, I can. The first—I mean, we've already begun consultations with the—in vicinity First Nations, notably the Fox Lake Cree Nation who I'd indicated there the—it's within their resource management area. So they're the prime band that we're dealing with up front. We're—we will be—that will be one of the projects will be in—dealt with in—as part of the NFAT process. I believe I noted the timing of—the expected timing of the EIS filing in the package here. I can pull that out if you give me a second.

* (22:10)

Yes, we're expecting to file the environmental impact statement in December of 2014. So affected First Nations will be involved in the process of compiling information for the environmental impact statement review, and we've got to finalize process agreements with the five Cree nations in the vicinity of Conawapa. There'll be a process of dealing with adverse effects, as well, so—and the construction start date would be the latter part of December, or the latter part of 2016, under our current timing.

Mr. Gerrard: And you had been looking—did you get any further information on terms of the cost for the power generation at Wuskwatim? I think you suggested it might be around 7.2 cents per kilowatt hour.

Mr. Thomson: My recall was correct, we—the response we provided for last year and the costs haven't changed substantively since that time frame. Our expected cost to completion and that was 7.2 cents as an initial cost, and then over time as we depreciate the project, the related financing component would be expected to decrease.

Mr. Gerrard: The—that, in terms of new generation costs, how does that compare to wind costs?

Mr. Thomson: Well, I'm hesitating to answer in—only because they're two different resources. In terms of producing a windmill that has a capacity to generate output, a number of factors come into play, including the level of the wind resource, which as I had mentioned we've got a good resource. But, we can depend on the energy that's being produced by Wuskwatim, and we can't a wind resource. So, just simply building the windmill wouldn't be the—that would be one element of the cost in providing that firm energy and the firming resource associated with a gas turbine, for instance, would have to be added to that. So, we will explore that at length in the NFAT filing and through the hearing process and the economics of those.

Mr. Schuler: And to the corporation, I mean clearly Manitoba Hydro owns a lot of real estate; the building downtown and the one on Taylor. Does Manitoba Hydro own any other real estate, other than where hydro dams are on? We understand Manitoba Hydro would own those, and their two buildings. Does Manitoba Hydro own any other land in the city of Winnipeg?

Mr. Thomson: Yes, we own substation sites throughout the city, and other land in support of the

operations in and around Winnipeg and, in fact, across the province.

Mr. Schuler: Is it an undue hardship to get a list of the properties that are owned in the city of Winnipeg, the land?

Mr. Thomson: It would likely take some time to put that together but it's possible to do. You had—the reason I'm saying that, you had asked can you count on a—on the same kind of response time for undertakings as last year. I'm not sure how long it would take to put a list together. It might be—database might be readily available and it might not.

Mr. Schuler: And the point behind the committee is not to create undue hardship for the corporation or to ask it to expend vast amounts of money to get something like that. If it's easily accessible, you know, certainly it would be—I think it's healthy for committee to get that kind of thing, because I think it's—adds a little bit of oversight, but it should not be a hardship. So if it's something that could be provided without a lot of time and effort, I think the committee would appreciate that.

And I don't know if Manitoba Hydro wanted to comment on that, but then I'd like to go on to my next question.

Mr. Thomson: We'll take a look into that and we'll provide you what we can.

Mr. Schuler: Page 70 of the current annual report, if I could just get committee to have a quick look at it. Computer software and application development—\$201 million again this year.

What developments have been made this past year for that kind of money?

Mr. Thomson: That's the accumulated cost of all investments we've made in those assets, so that's a balance sheet item, not a current year expenditure.

Mr. Schuler: You know what, these are these moments when one looks at a—the other individual and say, you know, could you try this again on that one? Could you lay that out a little bit more clearly for some of us who perhaps didn't quite understand what you meant by that?

Mr. Thomson: Be happy to give it a try. The—note No. 9, which is the one you're referring to on the financial statements, has a summary of certain plan, including the investment in computer software and application development. So the original cost of all of the computer software that we've got was

\$201 million at the end of 2012. We've recorded depreciation against all of those assets of \$93 million, so the net value of the investment on our books is \$108 million at the end of 2012.

The prior year the net investment was \$105 million, so the change in investment over the year was an increase of \$3 million. That would be a net amount of some expenditures during the year and the retirement of certain assets. So, given the useful life, I—again, intangible—additions to intangible assets in total for the year were \$27 million, and—but that is all intangible assets, including land easements which the gross value of the original cost of those went up by about \$5 million during the year. That help?

Mr. Schuler: Oh, that was really clear. I think we all got that one.

I've a question for the corporation, why would computer software and land easements be put into the same chart?

Mr. Thomson: Under generally accepted accounting principles in Canada, they're both classified as intangible assets. It's a part of the accounting standards, so we—that's how we have to record them.

Mr. Schuler: So the ratepayers of Manitoba Hydro can be assured that the amount of computer software and application development was in and around \$27 million, not \$201 million. Is that correct?

Mr. Thomson: Would have—sorry—it would have been less than that because a portion of the investment in that overall asset class of \$27 million related to land easements.

Mr. Schuler: On a different question, who produces the advertising campaigns for Manitoba Hydro?

Mr. Thomson: Gen—most of them, we deal with Cringan George.

Mr. Schuler: And are the contracts tendered? Is it tendered once a year? Is it tendered by project? Do you just have a company that you deal with? And when—if it's tendered, does it go to lowest bidder?

Mr. Thomson: If you'd let me just make a quick inquiry I can get some information on that.

* (22:20)

There is a competitive bid process that's undertaken every couple of years to appoint a lead around our advertising communications.

Mr. Schuler: How much money does the corporation spend advertising with the Winnipeg Blue Bombers?

Mr. Thomson: We have a sponsorship arrangement with the Winnipeg Blue Bombers—I was just checking whether or not there were confidentiality provisions around that. It's—we're in the process of finalizing a sponsorship arrangement with them currently. I believe the—the prior year's was \$95,000.

Mr. Schuler: How much money does the corporation spend advertising with the Winnipeg Jets?

Mr. Thomson: We had a two-year commitment with the Jets. I believe that it's on the order of \$180,000.

Mr. Schuler: And how many courtesy tickets does the corporation get from—for their advertising from the Blue Bombers?

Mr. Thomson: In the previous arrangement there were two pairs of tickets.

Mr. Schuler: And for the amount of money that's spent by the corporation's support of the Winnipeg Jets how many tickets does the corporation get?

Mr. Thomson: We have access to two seasons tickets. We don't own them technically but we have access to the use of them.

Mr. Schuler: Is it possible to get a list of who those tickets went to this year, and in particular the distribution of Jets tickets albeit the short season that they had? Is it possible to get a list who they went to, and when we mean that we don't mean individual staff members but—a staff member, we don't mean individual names. The only time we would want to know names is if it was board members, a chief executive officer or politicians or their staff. Tickets that are given for community events or given to staff as a promotion we—of course, for privacy reasons would not expect to get their names, it's just at the top level.

Mr. Thomson: Yes, we can provide that information.

Mr. Schuler: I think the member for Kildonan (Mr. Chomiak) has been most agreeable today. I don't know what it is but he gave us ample amount of time to ask questions and we certainly appreciate the fact that Manitoba Hydro comes in front of committee, and we didn't get all the answers that we wanted, don't feel that we got everything but it's important for accountability, and I think it's important for the

legislative process what we do here to have these opportunities. We would still be prepared to pass the annual report dated March 31st, 2009, and then I think we've run out of time.

Mr. Chairperson: Thank you very much. Seeing no further question.

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

Shall the Annual Report of Manitoba Hydro-Electric Board for the fiscal year ending March 31, 2010, pass?

Some Honourable Members: Pass.

An Honourable Member: No.

Mr. Chairperson: The report is not passed.

Shall the Annual Report of Manitoba Hydro-Electric Board for the fiscal year ending March 31, 2011, pass?

Some Honourable Members: Pass.

An Honourable Member: No.

Mr. Chairperson: The report is not passed.

Shall the Annual Report of the Manitoba Hydro-Electric Board for the fiscal year ending March 31, 2012, pass?

Some Honourable Members: Pass.

An Honourable Member: No.

Mr. Chairperson: The report is not passed.

If some reports are not passed please leave the copies on the table for future meetings.

Now this concludes the business we have before us.

The time being 10:25, what is the will of the committee? Shall we rise?

An Honourable Member: Committee rise.

Mr. Chairperson: Committee rise. Thank you very much.

COMMITTEE ROSE AT: 10:25 p.m.

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