

**LEGISLATIVE ASSEMBLY OF MANITOBA**  
**THE STANDING COMMITTEE ON PUBLIC UTILITIES AND NATURAL RESOURCES**  
**Friday, 3 April, 1981**

Time — 2:00 p.m.

**CHAIRMAN — Mr. Warren Steen (Crescentwood)**

**MANITOBA HYDRO ELECTRIC BOARD**

**MR. CHAIRMAN:** If Mr. Kovnats takes his chair, we have a quorum. Mrs. Westbury has asked if she could ask a few questions to the chairman or the general manager of the Hydro-Electric Board. Mrs. Westbury, the Chair recognizes you first.

**MS. JUNE WESTBURY (Fort Rouge):** Thank you, Mr. Chairperson. I want to ask some questions along similar lines to those I have been asking in the House.

**MR. CHAIRMAN:** Mrs. Westbury, could you move your microphone slightly closer to you, please?

**MS. WESTBURY:** When I speak on the mike in the House, the Speaker says tone it down and when I come here, nobody can hear me, so it's a case of adjusting to the new mike.

I wanted to ask the Board, Mr. Chairman, with reference to the grid. Are the estimates that were given to us earlier of a 5-cent per kilowatt hour cost recovery figure for Limestone still accurate?

**MR. CHAIRMAN:** Mr. Blachford, do you wish to answer that?

**MR. BLACHFORD:** I'm sorry, I didn't understand the question.

**MR. CHAIRMAN:** Would you repeat yourself, Mrs. Westbury?

**MS. WESTBURY:** We were given estimates of a five-cent per kilowatt hour cost recovery figure for Limestone. Is that estimate still an accurate estimate?

**MR. BLACHFORD:** Under the assumptions made, I would suspect it's a proper figure, yes.

**MS. WESTBURY:** Can it be guaranteed that the cost will hold at the time Limestone power is available to the grid, say in 1995? Is there any guarantee in that? If not, what would be the estimate?

**MR. BLACHFORD:** No, there is no guarantee.

**MS. WESTBURY:** Is it expected that some figure will be arrived at at some time in the near future on that, or are we just going to be up in the air?

**MR. BLACHFORD:** The cost of Limestone power will be based on the estimates of cost of constructing the Limestone Station and until those estimates are changed, we will have a figure based on whatever assumptions are made.

**MS. WESTBURY:** Thank you. Could you give me an estimate of the transmission cost recovery to the Saskatchewan gate and the Alberta gate?

**MR. BLACHFORD:** You are referring to the estimated cost at that particular place?

**MS. WESTBURY:** Yes.

**MR. BLACHFORD:** I think — this is probably not a question to be answered here by Hydro. As you know, this is being conducted by the provincial people and negotiations and discussions are under way and I don't think we should be giving these kinds of figures here and most particularly without stating the assumptions that go with them.

**MS. WESTBURY:** All right. I haven't been able to get the answer in the House either, so I'll have to pursue that line and follow up on another point here. On the power sharing, Mr. Chairperson, has provision been made for Manitoba to receive energy benefits in the grid planning; for example, Alberta to supply thermal-generated power in the event of low production due to drought or low water or anything of that kind?

**MR. BLACHFORD:** Matters such as this are being discussed and considered, yes.

**MS. WESTBURY:** They are still being discussed?

**MR. BLACHFORD:** Also under discussion.

**MS. WESTBURY:** All right, Mr. Chairperson. That's all I have for now.

**MR. CHAIRMAN:** Mr. Brown.

**MR. ARNOLD BROWN (Rhineland):** Mr. Chairman, last night when I was watching the news and I saw that it was reported that Manitoba Hydro could have a five-year rate freeze on their reserves alone and that it really would not have need the Provincial Government to pick up the cost of the foreign rate exchange on the interest. As a member of the Board, this is not the understanding that I had at all and I wonder if Mr. Blachford could maybe give us further explanation as to this and clear up this matter.

**MR. BLACHFORD:** May I ask Mr. McKean to answer this question, please.

**MR. CHAIRMAN:** Mr. McKean could you pull the microphone number 7 closer to you? Mr. McKean.

**MR. A. K. MCKEAN:** Mr. Chairman, yesterday I think the answer I gave to the Committee was that in my opinion without the guarantee from the province we would not have been in a position to freeze the rates for five years. Now, we did some discussions on reserves at that time and I don't know whether your question involves me going back into those figures and those reserves or not.

**MR. CHAIRMAN:** Mr. Brown.

**MR. BROWN:** I would like Mr. McKean to give us a full explanation as to what the effects would have been if Manitoba Hydro would have gone into this five-year rate freeze and what it would have done as far as the reserves that Hydro has at the present time?

**MR. CHAIRMAN:** Mr. McKean.

**MR. McKEAN:** Yes, when we went into the rate freeze the two big variables that we pointed out at that time was what was going to happen in the five years with respect to the loss on foreign exchange, which was a very serious condition to Manitoba Hydro at that time, and also of course waster conditions which was the unknown.

We had predicted at that time and not only predicted, our debt actually had maturities in that five-year time that had very substantial maturities where we knew that the losses were quite large. Now, I have done a very rough estimate of that for the five-year freeze period and my rough estimate is that there would be losses of approximately \$118 million. Now, I want to qualify the fact that that would depend upon what the exchange rates would be but it is a rough estimate of what our losses on exchange during that five-year period.

Based upon my estimate, or present estimate of revenues of Manitoba Hydro to the end of the rate freeze and again we're assuming in this estimate average water conditions, and as was pointed out yesterday we're certainly not hopeful of those average water conditions in the year that we're just entering, we are estimating that our reserves at the end of those five years could be about \$125 million. Now, at the same time the province will have absorbed losses amounting to approximately \$118 million, so if that had been left in our books, we would to all intents and purposes have wiped out our reserves. We were faced with the fact, when we went into this matter, that we were being criticized as a utility that our reserves were insufficient, so that I think it would have been my recommendation to the Board of Manitoba Hydro that certainly we should not allow our reserves to be completely depleted in that period.

**MR. BROWN:** I think that explains this misunderstanding that possibly occurred yesterday. It always had been my understanding then that Hydro could not have gone into the five-year rate freeze on their own. Thank you.

**MR. CHAIRMAN:** Mr. Craik.

**MR. CRAIK:** Mr. Chairman, on this same point, Mr. McKean has referred to the \$118 million as being the foreign currency losses over the five-year period, although at this point in time, I think the \$118 million — did he say it is the current estimate or was at the time?

**MR. CHAIRMAN:** Mr. McKean.

**MR. McKEAN:** My estimate very roughly, what I think it would be at the end of the time, but again it's much dependent upon . . . That includes, I might

say, the \$36 million loss of last year; we had been advised that there was approximately \$10 million this year; I am estimating \$37 million next year based upon a major maturity that is coming up. I have \$10 million in 1983, when there was no maturity coming up, and \$25 million in 1984 where there are maturities but they are smaller losses. I completely admit that those are rough estimates, but I think it gives you the magnitude. Now there are maturities beyond that that are not in this period but these are the maturities that occur by the time the rate freeze ends.

**MR. CRAIK:** Is that calculated on the basis of current exchange rates?

**MR. McKEAN:** Well, it is calculated very roughly, yes, I would say my estimate is on the current exchange rates and is certainly subject to other people guessing different exchange rates.

**MR. CRAIK:** This covers the five-year rate freeze period?

**MR. McKEAN:** Just the five-year rate freeze.

**MR. CRAIK:** Do you recall the numbers, or do you have any figure for the total shift of currency from Hydro to the Province extending beyond the rate freeze period?

**MR. McKEAN:** At the time the rate freeze occurred, we were estimating the potential loss for all our debt was in the magnitude of about \$375 million. Now a good deal of that loss occurred longer term. I am going by memory now here. I think it was somewhere in the neighbourhood of about \$175 million in the 1980's. Now, I confess, I am going a bit by memory here now, Mr. Craik.

**MR. CRAIK:** Well if you had carried on, assuming that it was somewhere in this order of \$375 million total that the province absorbed, by your present calculation, it looks like maybe \$118 million, assuming that currencies stay relatively as they are now, but would it not have been prudent for Hydro to, had the currencies not been shifted, would Hydro not have been preparing through their reserve to also anticipate the future losses?

**MR. McKEAN:** Yes.

**MR. CRAIK:** You don't just look at the five-year period, you have to consider what Hydro would have had to have done in that five years to prepare for the payoff of the remaining \$260 million that it was still faced with after that five-year period to pay-off.

**MR. McKEAN:** I agree with you, in fact our recommendation at that time was to amortize that loss over its remaining life and that's what we were going to do. I use this estimate because I think this is the way it's been picked by the provinces in their books at this point, is to pick it up at only maturity. But I agree completely that it was my recommendation when Hydro was absorbing it that we would amortize it over the life, in which case our records would have shown a much greater loss than this 118.

**MR. CRAIK:** If you were operating other than as a public utility and did not prepare for the payment of those losses, you would have been technically bankrupt?

**MR. McKEAN:** We would have a big deficit.

**MR. CRAIK:** You have a big deficit which, if you were private, you would be bankrupt because you have a debt equity ratio now that's . . .

**MR. McKEAN:** I certainly, in my position with Hydro, I would not have recommended that we carry on that way to the Board of Manitoba Hydro.

**MR. CRAIK:** On this matter of debt equity ratio, this currently leaves Hydro in the position of perhaps 96-4, or somewhere in that . . .

**MR. McKEAN:** I think we got down to 94-6 last year. My estimate is, I think we are about 94-6 now.

**MR. CRAIK:** Just by way of comparison, since there is some opinion that debt equity ratios really don't matter as long as the government is going to pick up all the slack in case it does fall below some point, do you have any idea of what other utilities, such as Ontario Hydro and Quebec Hydro do?

**MR. McKEAN:** Quebec Hydro have the best debt equity ratio and it's roughly about 70-30. Ontario Hydro, I think the last time I looked, have about 85-15, and they were a much higher equity than the rest of the utilities in Canada. There's a number of them that were around 92-8, etc., and I haven't got the exact figures with me. We certainly, when we were at 98-2 at one point, and I think with the exception of Nova Scotia, had the worst debt equity in Canada at that point, and it was certainly at that point where we recommended it should be improved.

**MR. CRAIK:** If you were going to get up to anywhere near what those utilities carry as a debt equity ratio, you would have to have a reserve picture which was several times bigger than what you have at the present time, let alone reducing it further still?

**MR. McKEAN:** That is correct.

**MR. CRAIK:** Thank you.

**MR. CHAIRMAN:** To the members of the committee, when we met Thursday morning of this week, a number of questions asked by members of the committee were not answered at that time and the administration people do have answers to those questions.

Mr. Walding.

**MR. WALDING:** Mr. Chairman, on a point of order, have we completed this particular topic or are other members entitled to ask questions on this other topic?

**MR. CHAIRMAN:** No, you certainly are. I was just going to ask the members of the committee at this time would they like to carry on with the current discussion or would they like to have Mr. Kristjanson

and Mr. Blachford give the answers that they asked for some time to prepare. Which is your wish, Mr. Walding?

**MR. WALDING:** Mr. Chairman, I think you should have posed that question at the beginning of the meeting rather than to go on to another question and a second question with a different line of questioning. I would like to ask a question or two of Mr. McKean following up on the same point that has been raised.

**MR. CHAIRMAN:** Carry on, Mr. Walding.

**MR. WALDING:** Let me ask Mr. McKean, since the government has taken over those foreign debt exchange costs, and there are a number of figures given around in millions, can you tell me who will be paying those costs?

**MR. McKEAN:** Those costs — the risk on foreign debt has been transferred to the province and I would say it's being included in the expense provisions by the province. I'm not an expert in provincial finance, but I am assuming it would be the taxpayer of Manitoba at some time.

**MR. WALDING:** So Manitobans, through their various taxes, will be paying for those costs?

**MR. McKEAN:** That is correct.

**MR. WALDING:** Had that course of action not taken place and those costs had remained with Hydro, I would presume that Hydro would have increased its rates to recoup those extra costs through its revenues?

**MR. McKEAN:** That is correct.

**MR. WALDING:** Is it true that Hydro's revenues come only from the users of its power?

**MR. McKEAN:** Yes, the users of power in Manitoba, plus any revenue from a sale of surplus export. Those are the two main sources of revenue.

**MR. WALDING:** So had this course of action not been taken, at some time the revenues would have had to increase. Would those revenues have come from Manitoba users of Hydro, plus people from Ontario and Saskatchewan and from Minneapolis, who were also buying power?

**MR. McKEAN:** The specific charge would be additional to the people of Manitoba because the export revenue will be that which we can obtain and certainly I don't think the fact that we had a foreign exchange would be a factor in increasing that revenue. Right now, we try to get as high a price as possible from the sale of export, so that I think the answer to your question is that it would be somewhere a specific charge against the user in Manitoba.

**MR. WALDING:** But extra-provincial sales make up part of the revenue picture, do they not?

**MR. McKEAN:** Right.

**MR. WALDING:** And it's out of the total revenues of Hydro that you would have paid those charges?

**MR. McKEAN:** Yes, but the sale of surplus energy is sold on a day-to-day, monthly basis, and that price is much more related to the displacement price of the people we sell it to and it's after taking into account that revenue that we arrive at what we have to charge the people in Manitoba. So if the costs go up, it would be an additional charge to the people of Manitoba. I might say, if we could increase that price, we would try to do that at every opportunity and that also decreases the amount that has to be recovered from the people of Manitoba.

**MR. WALDING:** The average price of sales, I note from either the Annual Report or from the Chairman's remarks, has shown an increase this year?

**MR. McKEAN:** Yes, a slight — I think you quoted . . .

**MR. CHAIRMAN:** Mr. Blachford.

**MR. BLACHFORD:** I believe it went up by one mill.

**MR. WALDING:** So that increase of revenue would have gone into Manitoba Hydro's total revenues?

**MR. McKEAN:** That's correct.

**MR. WALDING:** And as such, would have helped offset the additional costs included in foreign exchange.

**MR. McKEAN:** Any revenue that we obtain from export goes to offset our total expenses that have to be recovered from the people in Manitoba.

**MR. WALDING:** Okay, this discussion, or the questions from a few minutes ago about debt equity ratio and sufficient reserves, do you think that Hydro should set a specific figure for debt equity ratio or should it aim towards some particular level of reserves in dollar figures?

**MR. KRISTJANSON:** Mr. Chairman, may I answer that question?

**MR. CHAIRMAN:** Mr. Kristjanson.

**MR. KRISTJANSON:** It's the intent of the Board and management to work towards an improvement of that debt equity ratio as circumstances permit and those circumstances are much related to the volume of water that we get in the water sheds and the financial returns from year to year but there is a policy decision on the part of policy intent on the part of the Board to work towards improving that debt equity ratio, in other words, improving the financial soundness of Manitoba Hydro over a time.

**MR. WALDING:** I assume that's a recent decision because we have asked questions before on this topic about the size of the reserves without getting any specific figure mentioned.

**MR. KRISTJANSON:** Mr. chairman, we have not specified that it should be 90-10 or 90-5-5 or 97-3.

We have simply said that the current situation will be improved as circumstances permit.

**MR. WALDING:** Can you tell me when that policy was adopted?

**MR. KRISTJANSON:** I am sorry, I can't tell you specifically now, but that is the intent, but a specific date — I'm sorry I can't tell you that.

**MR. WALDING:** Was this a change in policy since you came to the Board or within the last year?

**MR. KRISTJANSON:** I would suspect that this has been the intent for a long period of time, certainly 12 or 15 years ago, that was the basic intent of the organization. You see, to put this question in perspective, there is always the choice or the decision to be made as to whether or not you raise rates or put the emphasis on improving that debt equity ratio. It's a balanced judgment that you make, and in the last few months, few years as a matter of fact, it's been recognized that the organization should work towards an improvement. I'll put it another way; if we had three or four years of very adequate water supply back to back, that provides an opportunity to work in that direction.

**MR. WALDING:** That's what you have reserves for anyway, isn't it?

**MR. KRISTJANSON:** That's correct.

**MR. WALDING:** I am trying to understand this policy or change of policy if in fact it was one because we were told a couple of years ago that Manitoba Hydro's reserves were down to \$40 million and that a rate freeze would enable Hydro to build that up to \$100 million or so, around that figure was the figure that was given, I believe, by the Minister in introducing the bill, which did not sound unreasonable that Hydro felt that \$100 million in reserves was a comfortable cushion against a dry year or a couple of dry years. Are you telling me then now that it's not a matter of having \$100 million or \$200 million or \$500 million in reserves, that it's a matter of a debt equity ratio that should go close to 90-10 or at least closer to that?

**MR. KRISTJANSON:** Mr. Chairman, what I've said is that we should work towards an improvement in our current situation. We have not specified a target.

**MR. WALDING:** Would you consider, Mr. Kristjanson, that \$100 million in reserves for Hydro was sufficient hedge against foreseen disasters, if I can put it that way?

**MR. KRISTJANSON:** Mr. Chairman, I don't think it can be expressed in terms of a specific number for all time. It depends on the extent of capital that is been put in place. So, in my opinion, it's better to express it as ratio. To put it another way, \$100 million about 20 years ago would be quite different to \$100 million today.

**MR. WALDING:** Yes, I'm sure that you're right there, Mr. Kristjanson, but I don't want to go back 20 years, I'd like to go back only 2 years to 1979 and

I'm quoting from a document that was produced by Corporate Accounting and Financial Planning Department, which indicated at that time that Manitoba Hydro was aiming to get to a figure of \$120 million in reserves by 1983. Are you suggesting that that is not the right figure to be aiming at for 1983?

**MR. KRISTJANSON:** Mr. McLean do you want to — I was not here two years ago, do you wish to comment on that?

**MR. WALDING:** Or has the policy changed so much that \$120 million is now seen as inadequate?

**MR. CHAIRMAN:** Mr. Blachford.

**MR. BLACHFORD:** Just to give you some more perspective in this, Mr. Walding, we've made some calculations based on the variations in water flows. The difference between average water flow and minimum water flows in next year could be as much as \$60 million and we base our budgeting generally on average flows. The following year it's also \$60 million, \$55 million, \$45 million and in the same way that we can get back to back some wet years we can also get back to back some dry years, and two years could conceivably wipe out \$100 million.

**MR. WALDING:** That really doesn't answer the previous question.

**MR. CHAIRMAN:** Could you repeat your previous question then maybe, Mr. Walding?

**MR. WALDING:** It had to do with the view of Hydro Corporate Accounting two years ago, that they were aiming for \$120 million as of 1983.

**MR. CHAIRMAN:** Mr. McLean.

**MR. McKEAN:** Could I make a comment on that one because it turned out from our department?

When we turn out those figures, we do not set policy in Manitoba Hydro, we recommend to the Board. We also recommend that the Board should consider this every year. Now, that is a projection showing an assumed reserve provision. It is not recommended to be whether it is either adequate or not adequate for the future years. I agree completely that every year it should be looked at and there's many factors that would consider what is adequate for each year, such as what kind of water conditions that we have experienced, the size of our capital program, the size of inflation, the interests rates, many variables and I know I'm an advocate that the Board, in their wisdom, should consider that policy because the setting of a reserve under the Act is a policy set by the Board of Manitoba Hydro. All the Corporate Accounting Department, of which I head, is that we provide input to the Board but no document that we would turn out would be construed as setting policy.

**MR. WALDING:** You're telling me that under the Act that there's a requirement for the Board to set a policy on reserves?

**MR. McKEAN:** Section 40 of the Act, I'm quoting from the Section: "The Board shall establish and

maintain and may adjust as required such reserves or funds of the Corporation as are sufficient in the opinion of the Board to provide . . ." and there are about four things that should be provided. I'm quoting from section 40.

**MR. WALDING:** Then perhaps I should ask Mr. Kristjanson what is the present policy of the Board as regards to sufficiency of reserves to cover those other sub-sections.

**MR. CHAIRMAN:** Mr. Kristjanson.

**MR. KRISTJANSON:** Mr. Chairman, the policy of the Board is to do all things necessary to meet the basic mandate spelled out in the Act, which is to provide for a supply of power adequate to the needs of the province and to promote economy and efficiency in the production, distribution and use of power, that's the overall mandate; so our primary responsibility is to the power users of this province and we also have a responsibility to conduct our affairs in a prudent manner, prudent in a financial sense. In answer to your earlier question, Mr. Walding, I'd indicated that the Board has examined the current debt equity ratio and they are of the view that as circumstances permit, we will work towards improving that position and that has not been a change of policy over the many years that I've been aware of activities in Manitoba Hydro.

**MR. WALDING:** Mr. Kristjanson, you told us the overall mandate of Hydro, what is its specific section 40 mandate. If the Board has a policy, it's presumably written down on paper.

**MR. KRISTJANSON:** A quote from the Act, Mr. Walding. We have a section here which is entitled "Depreciation and Stabilization Reserves" and if I may I will read the entire section. Perhaps that will help clarify.

"The Board shall establish and maintain and may adjust as required such reserves or funds of the Corporation as are sufficient in the opinion of the Board to provide:

"(a) For the amortization of the cost to the Corporation of the property and works, whether as a whole or in its component parts, of the Corporation during the period or the remaining period of the useful life thereof.

"(b) For the amortization of the cost to the Manitoba Power Commission of the property and works whether as a whole or in its component parts, of the Manitoba Power Commission therefore acquired by it and acquired by the Corporation under part 2 and during the remaining period of the useful life of that property and works.

"(c) Insurance for which provision is not otherwise made against loss or damage to any property of the Corporation or to the persons or property of others caused by or arising out of the works or operations of the Corporation.

"(d) For the stabilization by the Board of rates or prices for power sold by the Corporation, the meeting of extraordinary contingencies and such other requirements or purposes as, in the opinion of the Board, are proper."

That's the end of the quote, Mr. Walding. So the most relevant part of this question, sir, is the (d)

part. "For the stabilization by the Board of rates or prices for power sold by the Corporation, the meeting of extraordinary contingencies and such other requirements or purposes as, in the opinion of the Board, are proper." Now, the question of what is proper is a matter of judgment to be made by the Board from time to time and as I have indicated earlier, it is the opinion the Board that the current debt equity ratio, while adequate, should be improved as circumstances permit.

**MR. WALDING:** That's Section 40 that you were reading from?

**MR. KRISTJANSON:** Yes, 40.1(d). Mr. Chairman, over a long period of time, it has been the objective of the Board to avoid erratic changes in rates from year to year, hence there was a rate stabilization reserve established so that you could, you know, go from one year to the next without annual changes in the rates. That policy has been consistent over a long period of time.

Now, your specific question is how much, and I have tried to answer it as clearly as possible, Mr. Walding.

**MR. WALDING:** Mr. Kristjanson, I realize what a rate stabilization fund is for and surely the intent of the Legislature when it drafted that was that the Board should exercise its responsibility and set a policy on reserves which it can vary from time to time as indicated in Section 40.

The simple question that I was asking you was, what is the present policy as regards the level of reserves? Now, you may not know what it is and I will accept that as quite a fair answer and no doubt you will be able to produce it for us at our next meeting. I understand we are to meet on Tuesday morning.

**MR. KRISTJANSON:** Mr. Chairman, the policy direction, the policy intent is to work towards improving the current situation with respect to our reserves.

**MR. WALDING:** But, Mr. Kristjanson, that's not the way I hear those words that you read out. There is a clear responsibility on the part of the Board, according to those words that you read, for the Board to set a policy of adequate or sufficient, and I haven't got the wording in front of me, reserves for the benefit of Hydro and the people of Manitoba.

All I am asking you is what is the policy and has it been changed recently? Now if you want to take time and produce it at our next meeting, that's fine.

**MR. KRISTJANSON:** Mr. Chairman, in my view, sir, taking time would not produce any other answer to the question.

**MR. WALDING:** Then you are telling me, Mr. Kristjanson, that the Board does not have a policy as it is required to do by Section 40 of the Act?

**MR. KRISTJANSON:** As I indicated earlier, this judgment call is related to the pricing of the product and the service that we provide. We are currently in a situation where the rates have been fixed until the fall of 1984 so the issue you raise doesn't have to be

faced except if we have a — let's assume for the moment that we have three years, back to back, of high water flow and if we could have surpluses for those three years in terms of revenue, an issue would arise as to whether or not rates should be reduced. At that point, what I am saying is that our policy intent and direction is to strengthen the financial reserves rather than adjust rates downward. This is hypothetical because none of us know whether it is going to continue to be cloudy and we don't know whether we will in fact have adequate rainfall for the three or four years upcoming.

**MR. WALDING:** Did I hear you say, in answer to that question, that the Board wouldn't review the policy until the end of the rate freeze?

**MR. KRISTJANSON:** No, I didn't say that, Mr. Walding. I said that as circumstances permit, we will strengthen the financial reserves. Obviously that was done last year.

**MR. WALDING:** Let me read Section 40.1 again to you: "The Board shall establish and maintain and may adjust, as required, such reserves and funds of the Corporation as are sufficient, in the opinion of the Board . . ." to provide those four things.

Now, did the Board establish and maintain such reserves? What is a sufficiency in the opinion of the Board? If you don't know, that's fine. If they haven't done so, then please tell us why the Board hasn't fulfilled its responsibility.

**MR. KRISTJANSON:** Mr. Chairman, back in 1969, there was a rate stabilization reserve of, as I recall, \$17.6 million. Part of that was used for other purposes. Currently, the situation is, as I have described, the rates are fixed until the fall of 1984. If we are blessed with adequate rainfall and moisture conditions for the next two or three years, we may very well have an opportunity to improve our financial reserves, and I would hope that you would pray for rain.

**MR. WALDING:** I'm afraid my prayers wouldn't have much effect, Mr. Kristjanson.

I'm sorry, go ahead.

**MR. KRISTJANSON:** No, go ahead, I'm sorry.

**MR. CHAIRMAN:** Mr. Walding, what I think Mr. Kristjanson was going to ask me was, is now the appropriate time for him to give the answers to some of the questions that were asked at our last meeting, that he asked if he could have time to prepare the answers.

**MR. WALDING:** Mr. Chairman, I still don't think I have a satisfactory answer to these questions on the establishment of reserves, and I repeat the question. It's clearly the responsibility of the Board to maintain such reserves and funds that it considers necessary. Now what is the present policy of the Board as to a sufficiency of funds to cover those four items?

**MR. KRISTJANSON:** Mr. Chairman, you know this is becoming repetitive, Mr. Walding, but the fact of the matter is that the Board —(Interjection)— Pardon me?

**MR. ENNS:** I think the question has been answered several times.

**MR. WALDING:** Mr. Chairman, since the Minister of Natural Resources seems knowledgeable perhaps he can tell me what a necessary or sufficiency of reserves is for Manitoba Hydro.

**MR. KRISTJANSON:** Mr. Chairman, I think, if I can try to interpret your question, you are asking me whether or not we have a specific statement which says that we shall retain or maintain a debt equity ratio of so and so. Is that your question? That's not your question.

**MR. WALDING:** No, Mr. Kristjanson, there is no reference at all under 40.1 of any debt equity ratio; the only reference here is to reserves or funds of the Corporation.

What is the policy of the Board? I don't know when the Act was first written and it probably goes back 30, 40 years . . .

**MR. KRISTJANSON:** Mr. Chairman, it's from time to time, and what I am saying to you, one more time, is that under the current circumstances the Board recognizes that rates are fixed until 1984 and there may be opportunities even within that framework depending on the amount of rainfall and moisture we have, there may be an opportunity to improve that financial strength of the organization and the policy of the Board is to work towards that rather than reduce rates.

**MR. WALDING:** Is that the present written policy of the Board?

**MR. KRISTJANSON:** It's a policy recognized by Board and management and has been discussed within the Board with the last few months.

**MR. WALDING:** Can you tell me when that policy was adopted by Hydro since it is to be changed from time to time, or may it be adjusted as required is what the Act says.

**MR. KRISTJANSON:** Mr. Chairman, the statement as given to you has been discussed with the Board and management and generally agreed to. We do not have it documented in writing.

**MR. WALDING:** Are you telling me that is the way the Manitoba Hydro Board works, it just discusses things informally and makes policies and sets its course for the future on the basis of informal talks?

**MR. KRISTJANSON:** Mr. Chairman, I didn't say on the basis of informal, it's been discussed formally within the Board. Circumstances are these: rates are fixed until 1984. The current debt equity ratio is known and is perceived by the Board that we should work toward improving that, and that's not really different to what it was 20 years ago.

**MR. WALDING:** Mr. Chairman, I used to be a member of the Manitoba Telephone System's Board of Commissioners, and we had some discussion several times on the matter of debt equity ratio as it affected the Manitoba Telephone System. About four

or five years ago the Board of Manitoba Telephone System adopted a policy on its debt equity ratio and that was done by resolution, there was discussion at the Board and there was a vote taken on it and it appeared in the Minutes as a resolution of the Board, of the Board setting its policy on that particular matter.

Now it would seem to me reading The Hydro Electric Board Act that section 40 requires the Board to set its reserves as a matter of policy and surely by resolution, or is this the only area of policy that the Board does not set by resolution?

**MR. KRISTJANSON:** Mr. Chairman, perhaps I can clarify this by reading another section of the Act.

**MR. WALDING:** I don't want to know about the Act; I want to know about the Hydro Board.

**MR. KRISTJANSON:** The price of power sold by the Corporation, the prices payable for power supplied by the corporation shall be such as to return to it in full the cost to the Corporation of supplying the power including, (a) The necessary operating expenses of the Corporation including the cost of generating, purchasing, distributing, and supplying power, and of operating, maintaining, repairing and insuring the property and the works of the Corporation and its costs of administration. (b) All interests and debt service charges payable by the Corporation upon or in respect of money advanced to or borrowed by, and all obligations assumed by or the responsibility for the performance or implementation of which is an obligation of the Corporation and used in or for the construction, purchase, acquisition, or operation of the property and works of the Corporation including its working capital, less however the amount of any interest that it may collect on moneys owing to it. (c) The sum that in the opinion of the Board should be provided in each year for the reserves or funds to be established and maintained pursuant to subsection 1 of section 40 — which is the one I read to you earlier.

So when we are in a position to consider the question of rates, up or down, then this question that we are discussing becomes relevant. But what I have indicated to you is that we do not have a specific resolution that says that we are going to work towards a specific reserve. That amount will vary from time to time on the basis of circumstances then prevailing, and the most important circumstance prevailing at the present time is that our rates are fixed until 1984.

**MR. WALDING:** Can you tell who keeps the Minutes for the Board meetings.

**MR. KRISTJANSON:** Mr. Don Sharman was the secretary to the Board.

**MR. WALDING:** If this committee were to call Mr. Sharman before it and ask him to search the minutes produced for this committee the last resolution of the Board dealing with its policy on reserves and funds, do you believe he could do so?

**MR. KRISTJANSON:** On this specific point, no.

**MR. WALDING:** Is that because there has never been a resolution by Manitoba Hydro on its

requirement to set reserves as are sufficient to carry on its affairs? Are you telling me now that Manitoba Hydro has never had a policy on the level of reserves?

**MR. KRISTJANSON:** The policy has been to provide reserves adequate to the circumstances. Excuse me just a moment, will you?

**MR. WALDING:** Please take all the time you need.

**MR. CHAIRMAN:** Mr. Brown, did you wish to ask a question or make a statement on the specific subject that we are on and in the area we are on?

**MR. BROWN:** Yes, Mr. Chairman, if I may. I am probably the senior member of the Board at the present time and I was on the Board for two years when the previous Board was still in effect. To my knowledge, there has never been any specific amount of money designated for a reserve. The Act doesn't specify that we should have a specific amount of money; it just says that there should be a sufficient amount, in the opinion of the Board. Now, this amount can vary from year to year and usually we will know a couple of years ahead of time whether there is any major repair work required some place; then of course we have to see that there are going to be reserves sufficient for this. We also know that we have to keep a certain amount of money in our reserves that are going to meet any emergencies, such as ice storms, or whatever. So this is always the aim that the previous Board and this Board has been working to and we are working on the advice of Mr. McKean and senior management of Hydro in establishing reserves. When the reserves get low, they certainly are going to let us know that there is reason for concern and then we have to address ourselves to this.

Now, at the present time, I would say that our reserve level is sufficient. If we should have another year, which it appears that we could have, that there is going to be a low flow of water, we could very well see ourselves in a position where we would be concerned next fall or next spring. But at the present time we are not in that position. We have adequate reserves to see us through, I would say, for at least another two years of low flow.

So there is no specific amount of money set aside by the Board that should be kept in reserve, although we know that it has to be adequate in order to cover whatever emergency we conceivably could see as arising. (Interjection)—It's in the opinion of the Board and in the opinion of senior management of Hydro that that is what is adequate. Now, we know pretty well what an expensive ice storm is going to cost. It could go as high as — I believe \$6 million was the last one and that was one of the really bad ice storms that we had, so we know that we have to keep money in reserve to cover pegged down as reserves, this could vary from year to year, \$46 million this year might not be adequate next year; we don't know.

**MR. CHAIRMAN:** Mr. Walding, would you speak into the mike, please.

**MR. WALDING:** I was under the impression that we were having sort of a private conversation back and forth while . . .

**MR. CHAIRMAN:** No, I can assure you that Mr. Brown's remarks were recorded for Hansard purposes.

**MR. WALDING:** Does Mr. Kristjanson now have the answer?

**MR. CHAIRMAN:** In my opinion, I think he has tried to answer the question three or four times and obviously you want him to give you a specific dollar figure and he says they don't work with a specific dollar figure; they work on the conditions.

**MR. WALDING:** Who, Mr. Chairman? No, I have not been asking for a specific dollar figure. I am asking for the policy on reserves. Mr. Kristjanson has not given me a clear answer as to whether they have a written policy on the matter now, and the last question I asked him was, has the Hydro Board ever had a policy. He suggested to me that they didn't.

**MR. KRISTJANSON:** The policy guidance is in the Act.

**MR. WALDING:** But have you carried out what you are required to do under Section 40?

**MR. KRISTJANSON:** Mr. Chairman, in my opinion, yes, that has been done ever since Manitoba Hydro was established.

**MR. WALDING:** Mr. Chairman, I don't think we have been getting any straight answers to these questions that we have been asking. I would like to know if Mr. Sharman is present and whether he can come to the table and answer the questions.

**MR. KRISTJANSON:** Mr. Chairman, Mr. Sharman is not present and he would not be in a position to give you any answer that was different to the ones that have been provided.

**MR. WALDING:** Can I ask, then, Mr. Kristjanson, who would be the appropriate person to ask to review the minutes of Hydro Board meetings, to produce for us the last available policy on reserves?

**MR. KRISTJANSON:** Mr. Chairman, this is an appropriate place to ask that question. If you wish to have this in writing, we would be prepared to review the minutes, but the answer will be the one that has been given today, Mr. Chairman, that the guidance is provided in The Manitoba Hydro Act.

**MR. WALDING:** Mr. Kristjanson, are you telling me that the Hydro Board has never had a written policy on its reserves, that it would have passed by resolution of the Board, because that is the way a Board sets policies.

**MR. KRISTJANSON:** On the basis of my recollection, Mr. Chairman, the basic policy direction is contained in The Manitoba Hydro Act and the judgments are made from year to year when management and the Board review their financial plans not only for the next year but for the five years upcoming.

**MR. WALDING:** Mr. Kristjanson, you still haven't answered the question. Has Manitoba Hydro ever in

its history had a written policy on reserves as they are required to do under Section 40?

**MR. KRISTJANSON:** Again, Mr. Chairman, I say that the written policy is contained in the Act and it provides the guidance to the Board and has done over the years in its deliberations about financial plans and rate making from year to year, and I come back to the point that because rates are fixed for the next five years or until the fall of 1984, the only policy implication here is that if we happen to have a surplus of revenues then the question arises within the terms of this Act, a surplus of revenues you could argue or suggest that rates should be reduced. What I am suggesting to you is that the management and Board have the view that in those circumstances the Board would strengthen its financial position rather than reduce the rates.

**MR. WALDING:** Mr. Kristjanson, I suggest to you that the question is, why will you not answer the question?

**MR. KRISTJANSON:** Mr. Chairman, you and I are obviously having some difficulty in communicating with each other. What I have tried to say is that each time, on a year to year basis, each time the financial plans and budgets are approved they are considered in the context of the obligation of the Manitoba Hydro Board under the Act. That's the way the Board meets its obligations as spelled out in the Act.

**MR. WALDING:** Mr. Kristjanson, the question is quite clear and I have asked it three times of you, and that is, are you telling me that the Manitoba Hydro Board has never had a written policy on the sufficiency of reserves? Now if you don't know, I mean, that's fine, I will accept that as a reasonable answer and give you the opportunity to go back to your head office and find out.

**MR. KRISTJANSON:** Mr. Chairman, the question of sufficiency of reserves is a question, a judgment, exercised from year to year by whomever happens to have the responsibility for making the judgments on a year to year basis with the advice of management and within the context of the basic provisions of The Manitoba Hydro Act.

**MR. WALDING:** Mr. Kristjanson, does Manitoba Hydro have a written policy on its reserves or funds as required under Section 40.1?

**MR. KRISTJANSON:** The policy of the Board is to be consistent with the provisions of the Act, and we don't have anything in writing that I am aware of that goes beyond the basic provisions of that Act. The judgment that is referred to is exercised on a year to year basis with the advice of management and on the basis of the circumstances then prevailing.

**MR. CHAIRMAN:** Mr. Craik.

**MR. CRAIK:** Mr. Chairman, I think I am on Mr. Walding's side on this one. Isn't there a budget written each year and when the budget is written don't you write down what your reserve is, and if so isn't that a written statement of your reserve policy?

**MR. McKEAN:** As far as the past is concerned we had a rate increase every year from 1974 to 1980.

Every one of those rate increases was a policy of the Board and the most variable was the amount of the reserve provision that was contained in the amount that was going to be included in the rate change.

As you are aware we did appear before the Public Utility Board on those rate changes and just about the whole hearing of the Public Utility Board was related to the adequacy of the reserve provision that was contained in that rate change, so that every time there has been a rate change, the Board policy has been very clear on how much the reserve provision should be that would be included in the rate change.

Now once we had a rate freeze, for the last two years, there is really no way we can change the reserve provision unless you change the rates, because the reserve provision then becomes what do the present rates realize in revenue and therefore my interpretation of Section 39 is that the Board very clearly has to declare the policy at the time of a rate change, but in the meantime I think from a longer range point of view it is very adequate that the Board have a view on what our long term direction should be.

Speaking on behalf of the finance area of Hydro we do make recommendations to the Board in that connection. I have felt quite satisfied that the decisions that we have got from the Board, or the consideration of our recommendations have been in line with the Act.

**MR. WALDING:** Mr. Chairman, thank you, I've got a straight answer for once. Perhaps I could ask the remainder of my questions to Mr. McKean, I seem to get better answers from him than from the Chairman.

Mr. McKean, you had mentioned that the Public Utilities Board requires of Hydro a declared policy at the time of a rate change. Can I then assume from that that the last declared policy on the reserves that was given by Manitoba Hydro was at the time of the last rate application which was 1978-79?

**MR. McKEAN:** The last change in rates of Manitoba Hydro was as at February, 1979, and I think that was the last change that we appeared before the Public Utility Board subsequent to that last change, and certainly the amount of the reserve provision was very subject to debate at that hearing and we received some direction from the Board although we were a little confused what the direction was at that point.

**MR. WALDING:** So did the Public Utilities Board ask and did Hydro provide the declared policy of Hydro at that time?

**MR. McKEAN:** At that time the policy was very evident because the policy in declaring what our revenue needs were in order to arrive at the rate increase, it included a provision for a reserve as approved by the Board.

**MR. WALDING:** Was that declared policy given in writing to the Board?

**MR. McKEAN:** It was in writing by the Board insofar as that the Board had approved our revenue needs which included all our expenses including a reserve provision as required by Section 41.

**MR. WALDING:** So if we asked you to give us a copy of that declared policy that Hydro gave to the Public Utilities Board you could do so and that would constitute the last stated policy on reserves that was established by Manitoba Hydro. Would that be correct?

**MR. McKEAN:** I'm not sure if it's the last policy but I do know that at that time, the reserve provision as provided was approved by the Board. Now, if you approve an amount in a submission for revenue requirement by the Board, that in my opinion is an approval of the reserve provision by the Board.

**MR. WALDING:** Mr. McLean, will you provide for the committee a copy of that declared policy that was given to the Public Utilities Board?

**MR. McKEAN:** I'd prefer to . . . I'm not the secretary of the Board and I'd . . .

**MR. CHAIRMAN:** Mr. Walding, if the Hydro appeared before the Utilities Board as part of their application, would that not be a public record with which you would have access to as well any other member of this committee?

**MR. WALDING:** That's perfectly true, but I'm not in a position this afternoon to ask the Public Utilities Board to give me a document. I am in a position to ask Hydro to give me —(Interjection)—

**MR. CHAIRMAN:** Are you asking if Hydro will supply you with their application from that last appearance that they made before the Public Utilities Board?

**MR. WALDING:** I'm just asking if they will provide me with a copy of the declared policy that they gave to the Public Utilities Board at that time. Since it's not a confidential document, it's been indicated by you that it's a public document, I should see no problem with that.

**MR. KRISTJANSON:** Mr. Chairman, I see no reason why you should not have all of the record of the submission to the Public Utility Committee.

**MR. WALDING:** Mr. Chairman, I don't want a copy of the whole submission to the Public Utilities Board, I merely want a copy of that declared policy on reserves that was asked for by the Public Utilities Board.

**MR. KRISTJANSON:** Mr. Chairman, I'm sure that we should be able to find that statement and send it to you, sir.

**MR. WALDING:** Good. I will take that then as being the last available policy on reserves and funds as required by the Hydro Board under Section 40.1 which I could not get from the Chairman of the Board.

Now, Mr. Chairman, since we got off on that particular tangent, it took us 30 or 45 minutes, I've forgotten what the rest of the questions were that I had on the operating statement.

**MR. CHAIRMAN:** Perhaps, Mr. Walding at this time

**MR. WALDING:** However, Mr. Chairman, I do have other questions.

**MR. CHAIRMAN:** Perhaps at this time Mr. Kristjanson or Mr. Blachford could answer the questions that they took as notice the other day. Is that agreeable to you?

**MR. WALDING:** That's a good idea.

**MR. KRISTJANSON:** Mr. Chairman, yesterday, Mr. Green and Mr. Walding were pursuing essentially the same question and I undertook to review the agreement between Canada and Manitoba, the agreement of February, 1966, and perhaps I could refresh your memory or do you remember the question, Mr. Walding?

Well, the agreement dated February 15th, 1966, between the Government of Canada and the Government of the Province of Manitoba reads as follows:

"Electricity generating facilities includes:

"(1) The station," meaning the Kettle Rapids Station.

"(2) A controlled dam on the Churchill River at the outlet of Southern Indian Lake, a diversion structure for releasing water into the Rat River, a tributary of the Burntwood River which flows into the Nelson River and certain other ancillary works for the purpose of making available considerable water storage on Southern Indian Lake and to increase the power production on the lower Nelson River, and to increase the potential capacity of the hydro electric sites along the route of the Churchill River Diversion.

"(3) A control dam, spillway and flood control works to be located in the vicinity of the outlet of Lake Winnipeg, which works will be designed to permit the levels of the water of Lake Winnipeg and the outflow of the Nelson River to be regulated and controlled."

During the period of 1965 and 1968, the studies, discussions and plans were directed toward the design of the Diversion of the Churchill River for an in-service date of 1972. Primarily because of the desire to provide energy at the lowest possible cost consistent with the optimum development of the potential of the Churchill-Nelson River.

Remember we talked about this yesterday, Mr. Walding, and in 1966 when the then Chairman appeared before this committee, he pointed out that the criteria for the development was to provide the next source of power in a manner in which would be the most economic source for the power consumers of this province in the short run and be totally consistent with the ultimate full development of the potential of the Churchill-Nelson system.

Now the discussion on this point arose because of my wording which read as follows: "In 1966, both the Governments of Manitoba and Canada approved a basic plan which included the construction of the Kettle Rapids project for the construction of the Associated Transmission Facilities, Diversion of the Churchill River and Regulation of Lake Winnipeg, in that order." And it was the words, "in that order" that caused a half hour discussion or so and the paragraph was concluded by saying that "Subsequent analysis showed a substantial economic advantage to deferring Lake Winnipeg Regulation."

Now in my discussions with Mr. Green, I would fully recognize that those three words "in that order"

could have been interpreted in a manner in which Mr. Green seemed to be interpreting it.

**MR. WALDING:** I did too.

**MR. KRISTJANSON:** You did too. Well, in the interest of constructive discussion, I would be happy to withdraw those three words and just strike them from the record because I don't think it changes the substance of what was being said so, Mr. Chairman, I would just go on record saying that the inclusion of those three words does not add much to the understanding nor does it in fact help us to get on with the future.

To sum up, Mr. Walding, all through that period in the manner in which these documents were written, that order was understood amongst those who were working on these matters, which included the staff, management, and the Board. But then the sequence was in fact changed and I did indicate yesterday what Justice Tritschler had stated in his report and if you don't mind, Mr. Chairman, I'll just re-read that: "The Commission finds that the construction of Lake Winnipeg Regulation prior to Churchill River Diversion did not promote economy and efficiency in the generation of supply of power. The sequence chosen was at variance with the opinion of all of the Hydro staff who testified."

The reason this becomes an important matter is that the amount of capital that is put in place has a very direct bearing on the rates that have to be charged in the current year's operations. The operating costs are heavily influenced by the interest costs and represent about 50 percent of the total operating costs in this year.

However, for purposes of concluding that discussion we had yesterday, which arose from the inclusion of those three words, "in that order," I would be prepared to withdraw those words, "in that order."

**MR. WALDING:** Just further to that last statement, Mr. Chairman, it would seem that if was the Chairman's personal views on history that coloured the facts in this particular matter and that if the Chairman should feel that he wishes to comment on the history of Hydro in future, he should confine himself strictly to the facts without editorial comment on that.

As far as quotations from the Tritschler Report are concerned, I have read the whole of the report, including the quotation that I gave from memory to Mr. Kristjanson yesterday that he couldn't, or declined, to confirm.

I just recalled the other question that I wanted to ask on those financial figures that we were having, just to ask if the matter of rates was considered by the Board last November and what the outcome was of that consideration?

**MR. KRISTJANSON:** Mr. Chairman, I'm not sure that I understand that question.

**MR. CHAIRMAN:** Mr. Walding, would you repeat your question, please.

**MR. WALDING:** Yes. Did the reconsideration, or consideration of the rate structure take place last November, and what was the outcome of that discussion?

**MR. KRISTJANSON:** Mr. Blachford, Mr. Chairman . . .

**MR. CHAIRMAN:** Mr. Blachford, can you . . .

**MR. BLACHFORD:** I am not aware that we had any discussion over the rate structure of Hydro.

**MR. WALDING:** Mr. Chairman, I cannot find the quote very quickly, but I recall very clearly the Acting Chairman of Hydro appearing before the Board last year, when there was some discussion of the rate freeze and the reserves and the sufficiency of reserves, and I believe it was Mr. Cherniack who made the point with Mr. Curtis at that time that perhaps it was time to consider a rate decrease. Mr. Curtis stated that consideration would be made in November of such rates and I believe I have the specific instance here, when on Page 155 on Friday, the 13th of June, Mr. Cherniack said, "Mr. Chairman, when is the next round for a rate review?" Mr. Curtis replied, "Our normal procedure, Mr. Chairman, is to review the rates in November." Mr. Cherniack said, "In November?" Mr. Curtis said, "In November."

He made comment then that November was getting quite close. I won't read it all but it is available . . .

**MR. BLACHFORD:** Mr. Chairman, there was no rate review made last November but each November, Hydro does prepare its financial plan for the coming year and years subsequent to that, and I point out that there is no real point in reviewing rates per se at this stage of the game when they are fixed by the provincial government.

**MR. WALDING:** That's the whole point, Mr. Chairman, and it goes back to the discussion that we had on rates and reserves. I go back to the Minister's indication when the rate freeze was brought in, that it was intended that the reserve should go up to somewhere around \$100 million, give or take a few million, and that that would seem to be a reasonable figure at that time to aim for by the end of the five years. It was pointed out in discussions with Mr. Curtis last year that that figures had been surpassed in only two years and if the figure of \$100 million was reasonable at that time, a figure of \$140 million was more than reasonable and perhaps it was time for a reconsideration of rates to take place and perhaps even a recommendation to the government that rates be decreased for the benefit of Manitobans.

It would seem from Mr. Curtis' reply that he was quite willing to have the Board consider that matter and indicated to us that there would be a routine reappraisal in November. Now, do I hear Mr. Blachford telling me that it was not reviewed at all, that no consideration was given to the possibility of a recommendation for a rate decrease?

**MR. BLACHFORD:** That's correct, yes.

**MR. WALDING:** Can you tell us why that was not discussed following the Chairman's undertaking — not undertaking, statement that it would be reviewed.

**MR. BLACHFORD:** As indicated, the financial plan for subsequent years is reviewed at this time and if

there is any adjustment to be made, of course it is considered. The financial plan is brought up at that time and financial projections did not include changing the rates.

**MR. KRISTJANSON:** Mr. Chairman, the financial plan was presented to the Board in November — was it November?

**MR. BLACHFORD:** Yes.

**MR. KRISTJANSON:** At that time, because of the severe drought conditions, the financial outcome which you heard about yesterday was anticipated; the severity of it was not anticipated because we didn't know at that time that we were going to have this very mild winter, which reduced revenues and therefore benefited the customers. But there was no reason to suggest or consider a reduction of rates because, as I said earlier, the rate stabilization reserve is designed to make it unnecessary to have year-to-year gyrations in the rates. As you can see from that chart there, Mr. Walding, for many many years the trend was downward and it's only in the last five years or so that there have been major increases and they are now fixed until the spring of 1984 and it would have been imprudent, given the information that was provided to us, to consider a rate reduction.

**MR. WALDING:** Could you explain to me about the severe drought conditions in November.

**MR. KRISTJANSON:** During the summer months — Mr. Blachford, do you have the records there to draw attention to the effect of limited water supply in the water sheds?

**MR. BLACHFORD:** In the year ended March 31, 1980, the actual hydraulic generation was more almost 21 billion kilowatt hours. The estimate of the actual up to the end of February 1981 and the estimate for March is only \$18.5 billion. Now, this drought had happened during the summer and had reduced the income that the utility was expecting to get and it put us at that stage into a deficit position for the remainder of the year 1980-81.

**MR. WALDING:** Mr. Kristjanson said that one of the reasons that they didn't discuss a possible rate decrease was because of the severe drought conditions in November. Now, I recall that there was drought early in the year, but . . .

**MR. KRISTJANSON:** Mr. Chairman, I did not say because of the severe drought conditions in November. I assumed that most of us in Manitoba would recognize that the inflows into Lake Winnipeg occur after the snow melts, or the previous year, and is a function of the rainfall in the months of March, April, May, June, July, August, September, October, which are reflected in the storage capacity and reflected in the amount of water you have to produce energy.

**MR. WALDING:** Mr. Chairman, we shouldn't argue about such silly little things. Hansard will show whether he used the expression "severe drought" or not.

Mr. Chairman, I want to move to a different topic, if I may, and go back to the times that Hydro was being asked to produce information and witnesses for the Tritschler Commission. I assume, or I have read, that Hydro retained outside legal counsel to represent it at that time. Can you confirm that?

**MR. KRISTJANSON:** Mr. Chairman, I was not involved at that time. Mr. Blachford, you weren't involved at that time either, were you? The answer to it — I am advised by Mr. McKean that yes, that is correct.

**MR. WALDING:** Can you give me the names of the counsel that were retained at that time?

**MR. KRISTJANSON:** The firm engaged was Aikins, Macaulay.

**MR. WALDING:** Was it the whole firm, or was it one particular solicitor that was doing the work for Hydro?

**MR. KRISTJANSON:** Mr. Chairman, I do recall that Mr. Smellie was involved, Mr. Steward Martin and Mr. Mike Mercury(OK).

**MR. WALDING:** I would like to ask whether Hydro received a legal opinion from any of those gentlemen, giving a legal opinion that the Tritschler Commission was exceeding its terms of reference?

**MR. KRISTJANSON:** Mr. Chairman, again, I am not in a position to answer that, but I will ask whether there is anyone here who does know.

**MR. CHAIRMAN:** Mr. Walding, maybe Mr. Kristjanson and Mr. Blachford can take some of those questions as notice and get the answers for you. As you well know, neither of them were connected with the Hydro at that time.

**MR. WALDING:** I realize that, Mr. Chairman, and I recognize the honesty of a reply that it is not known. If there is an undertaking that that will be looked into, then that would be quite satisfactory for me. Can I then further ask that if in the event that there was a legal opinion to that effect would that be made available to the committee?

**MR. CRAIK:** I guess, Mr. Chairman, it's a question of what the committee draws on from Hydro. I don't know that the members sitting here can give that undertaking. It might be the sort of the thing that the Hydro Board itself has to give consideration to, but I think maybe the Chairman of Hydro may wish to take it under consideration as to what sort of internal documentation or information that may be internal to the utility as required to produce. I don't think in fact the utility is required to produce anything internal for the committee. Perhaps the Board may wish to take it under consideration though.

**MR. WALDING:** Mr. Chairman, I'm not suggesting that this committee order the production of that document although I believe it does have the power to do so if the committee so decides, but what I am asking of Mr. Kristjanson is, would he produce that paper, that legal opinion, if it does in fact exist?

**MR. CRAIK:** Mr. Chairman, I want to remind the committee that at one time, some five years ago, a member of the Legislature, a member of the committee asked for the minutes of a meeting of which there was some indication that these should be publicly available. Those minutes, even the minutes of the meeting were not released for view by a member of the Legislature. Now that's the only precedent we perhaps have as to the release of internal information from the Board. The reason I mention it, is the committee by tradition has not had the power to elicit information internally from the Board. I can't recall of any precedents where that has ever been done. The only place it has been attempted was under the reign of the former government who were reluctant to even release minutes, and I would suggest that the request is out of order but that doesn't suggest that the Board can't take it under consideration and review what kind of documentation they want to provide to the committee.

**MR. WALDING:** Mr. Chairman, I am not clear whether Mr. Craik is saying that this committee doesn't have the right to ask for such information or whether in the previous instance that he quoted it was this committee that voted down such a request. I seem to recollect it was the latter.

**MR. CRAIK:** The request for the minutes of a meeting that were asked for by the Member for Brandon West in this committee some — whatever it was — five, six years ago in the period of the former government was turned down as well in the Legislature as an Order for Return, so that the precedents that we have, the only precedent we have is that internal documents are not available from the utility unless the Board wants to willingly make them available. If the Board wants to make something available they can do so, but I would suggest that at most what the Board ought to consider is to take the question under consideration.

**MR. WALDING:** Mr. Chairman, that's not quite my recollection of the terms and powers of this committee and I am sure that the Clerk of the committee will have them and I would like to ask to see a copy and perhaps to read them into the minutes because I believe that this committee does have that power. I believe this committee has to the power to summon whatever witnesses and call for papers if it so decides.

**MR. CHAIRMAN:** Mr. Chairman, I'm not sure, is my answer to you. I've always been under the impression that the utility comes with their annual report. The Chairman and General Manager and the Minister reporting to the Legislature for that particular utility are here to answer questions to the best of their ability, but I have never been aware of them having to produce internal working papers.

You have requested that we ask the Clerk for a copy of the rules and I shall do so.

**MR. WALDING:** They are probably available right here, Mr. Chairman, and it should be just a minute to get them. In fact, if you have them you might read them into the record, Mr. Chairman.

**MR. CHAIRMAN:** To Mr. Walding and to members of the committee, in Beauchesne's Rule Book under

page 198 it says, "Powers of a committee to send for papers. Committee may send for any papers that are relevant to the orders of reference within this restriction." It appears that the power of the committee to send for papers is unlimited. That's Section 1, and then over in Section 3, "It cannot however be said that this requirement is absolute either in the case of the government departments or of public or private bodies since there are no incidences recorded in which obedience to the order for papers has been insisted on."

So it is rather vague. It says in one case, yes, and in the other case it says there is no absolute case. So I would think that Mr. Craik's suggestion is that Mr. Kristjanson and his Board take the matter under advisement and let them make the decision.

**MR. WALDING:** Mr. Chairman, I am trying to recall where the words appeared that applied to the committees. I know when we set up a special committee that it appears in the authorization for that committee and I am wondering if it is in our Rule Book that the powers of Standing Committees are outlined.

**MR. KRISTJANSON:** Mr. Chairman, my understanding of the purpose of these meetings is to present to members of the committee who represent the public that we serve, and it is our desire to be as informative as possible and as accurate as possible. As Chairman I would be happy to take this question under advisement and see whether this internal document does in fact exist and consider it with the Board. But it would be helpful to the Board, I'm sure, to have the context to within which you raised the question, that is what is it that we are trying to get at in order to help all of us serve the power users of this province more adequately, because we fully recognize that there is always room for improvement. If I may, Mr. Chairman, and if Mr. Walding would care to do so, give us the context within which you are seeking this information that might be helpful to us in complying with your request.

**MR. WALDING:** I will get back to that in a minute. We are presently considering a matter of procedure and the powers of the committee. Did you find something in our Rule Book, Mr. Chairman?

**MR. CHAIRMAN:** No, I didn't, it would be my ruling that the suggestion that Mr. Craik made that the Hydro Electric Board take the matter under advisement, and I am not prepared to say that yes you have the power to ask for that document. It would be up to the Hydro Board to release it if they should so wish to. That would be my ruling.

**MR. WALDING:** On a point of order, Mr. Chairman, I would not like to place you in the awkward position of making a ruling that you then find out later is not so because there are conditions of powers laid down for a Committee of the House which in fact specifies something different. That is all I am trying to ascertain at the moment, to know and understand just what the powers of the committee are. I can recall that a Committee of the Legislature whether Standing or Special Committee, has the power to summon witnesses and have them testify under oath if necessary, and I am almost certain that a

committee has the power to call for papers and documents. Now there may be some restriction on calling for papers that are Ministerial or government papers but in any case the government always maintains a majority on the committee and can vote down such requests.

**MR. CHAIRMAN:** Mr. Craik, on the same point of order.

**MR. CRAIK:** I think Mr. Walding said that this committee had the power to call witnesses. This committee in my recollection has never had the power to call witnesses.

**MR. CHAIRMAN:** Mr. Walding, I would say that this is a Standing Committee that deals with three annual reports, The Public Insurance Corporation, The Telephone System and The Hydro Electric Board. I have never in my five years of being a member of the committee, and I think I have been chairman for three or four of the years, have ever seen us call witnesses and have witnesses appear before this committee.

**MR. CRAIK:** Mr. Chairman, to go even further there was a resolution before the House to allow this committee to call certain witnesses at one time and it was turned down by the House, not by the committee. The Law Amendments Committee has had the traditional procedure of having witnesses appear at the committee. This committee has never had the right to call witnesses.

**MR. WALDING:** I am just looking in the Rule Book, Mr. Chairman.

**MR. CHAIRMAN:** Mr. Walding, do you want to perhaps, so that we can move on, leave the matter with me and permit me on Monday to discuss it with Mr. Reeves, the Senior Clerk?

**MR. WALDING:** I believe that would be advantageous, Mr. Chairman, but I do note that Rule 78 on Page 39 says that, "Subject to rules 79 and 80, a witness summoned to attend before a Committee of the House, except in the case of a committee considering a private bill shall be paid," etc., etc. That would seem to suggest to me that a Standing and Special Committee under Chapter 9 of the Rules is entitled to call witnesses. Now I would suggest that a ruling not be made on that at this time and that the Chief Clerk be . . .

**MR. CHAIRMAN:** It would appear, Mr. Walding, that we will be sitting again on Tuesday morning. I will discuss the matter with Mr. Reeves and on Tuesday morning I will hopefully have an answer for you. Can we then perhaps proceed with other questions?

**MR. WALDING:** Yes. Thank you, Mr. Chairman, that would seem to at least make it clear as to the powers of the committee.

My question has to do specifically with a legal opinion from legal counsel to Hydro's Board stating that the Tritschler Commission was exceeding its terms of reference. I would also like to know — Mr. Kristjanson might also want to make note of — as to whether that legal opinion recommended that the

Hydro Board apply to the court to prevent the Tritschler Commission from proceeding beyond the stated terms of reference, and if that is the case, why didn't Hydro do so, or perhaps it did do so and it didn't come to my notice, but I would be interested to know how that legal opinion was dealt with by the Board.

**MR. CHAIRMAN:** Mr. Walding, it is my understanding that Mr. Kristjanson and his Board will take your questions as notice.

**MR. WALDING:** Very good. There is perhaps one further one and that has to do with the amount of work, the time and effort and the cost to Hydro that was expended in the preparation of materials and preparations before the Tritschler Commission for something that its legal counsel had said was beyond the powers of the Tritschler Commission. So it's those sorts of questions that we would like to know and we assume that Hydro will have that information for us by Tuesday when we reconvene because it seems clear, Mr. Chairman, that we are not going to be finished by a reasonable time this afternoon.

**MR. CHAIRMAN:** Mr. Blachford, please.

**MR. BLACHFORD:** I'm not clear on what your last point was, Mr. Walding. What is it you wish; do you wish the cost to Hydro for the Tritschler Commission?

**MR. WALDING:** Well, it's clear that if Hydro had taken this legal opinion, if in fact there was one, to proceed to ask the court to prevent the Tritschler Commission going beyond its terms of reference, that it would have then saved a good deal of time and money and duplication in producing material for the Commission. So there is a matter there of potential savings had they taken that legal advice, or of actual cost by ignoring that advice.

**MR. BLACHFORD:** So you would like to know what it cost Hydro to prepare for the Tritschler Commission?

**MR. WALDING:** Not in its entirety, because I have asked for those figures in total in the past, as to what the total cost to Hydro was in producing material for the Tritschler Report. The question I am raising with you is, was this in fact a waste of money because the Board did not accept this legal opinion, or how much could they have saved by taking that legal opinion?

**MR. BLACHFORD:** So if a legal opinion was in fact received, you would like to know how much we spent on the Tritschler Commission after that date?

**MR. WALDING:** Yes.

**MR. KRISTJANSON:** I'm sorry, Mr. Chairman, could we ask Mr. Walding to again restate what he is really looking for? Do you mind?

**MR. WALDING:** I wanted to know if Hydro received a legal opinion from its legal counsel to the effect that the Tritschler Commission was exceeding its terms of reference?

**MR. KRISTJANSON:** That part is clear but the second part wasn't clear.

**MR. WALDING:** The second question was, if there was indeed such a legal opinion given, was it also in that legal opinion that Hydro proceed to the court to prevent the Tritschler Commission from going beyond its terms of reference? Do you understand?

**MR. KRISTJANSON:** Yes. But, Mr. Chairman, just to facilitate the work, may I ask whether you know or don't know whether such a legal opinion was received?

**MR. WALDING:** Mr. Chairman, we receive from time to time, rumours, information, opinion, from various people. This committee gives us the opportunity to ask questions of you to find out whether things that we have been told or have heard are in fact true.

**MR. KRISTJANSON:** My simple question was, are you aware of that opinion?

**MR. WALDING:** I have no personal knowledge of it. Mr. Chairman, I was about to go on to a different topic that may have a number of questions with it and I am wondering, since the time is five minutes to four, if this would be a convenient time for the committee to adjourn.

**MR. CHAIRMAN:** The hour, Mr. Walding, and to members of the committee, is almost four. You are seeking information which we don't have today, which obviously means we will have to meet again next week on Tuesday morning, April 7th at 10:00 a.m. Are there other members of the committee who may have some short questions that they would like to ask?

Mr. Kovnats. Could you pull your microphone closer?

**MR. ABE KOVNATS (Radisson):** To the Chairman of Hydro, we were talking about terms of reference as to what is the purpose of Manitoba Hydro and from what I understand it is to provide electrical energy to the people of Manitoba at the best possible price. Basically that's the terms of reference of Manitoba Hydro. In supplying excess electricity to the United States or to other provinces, it is still the purpose to get the best possible price for the people of Manitoba. Is Manitoba Hydro considering the possibility of hydrogen power? I know it is not going to be in the next short period but it's going to be in the next 20 or 30 years. Would there have to be any changes at all in the policies of Hydro to enter into the development of hydrogen power in the Province of Manitoba?

**MR. KRISTJANSON:** Mr. Kovnats, you indicate looking ahead 20 or 30 years and that is a possibility. We do not have any research under way on this possibility at the present time. I would have to review the Act very carefully to give you an answer to the question as to whether or not that would be logically done by and legally done under the current Act by Manitoba Hydro. I'm sorry, I don't have a quick ready answer to it, but I do believe that we, as Manitobans, should be examining that possibility in some detail because it does, in my

opinion again, looking ahead 20 or 30 years, I think it represents a very positive opportunity which should be examined.

**MR. KOVNATS:** I do also, Mr. Kristjanson. Inasmuch as I think that the future of hydrogen power is great, I think that the Province of Manitoba should get involved in it. I think that negotiations should be started immediately, if not sooner, with the Federal government, in cost sharing the experimentation or whatever is required to develop hydrogen power here in the province. I know that hydrogen power requires water and electrical energy of which we have great amounts, and I can't see anything but great things for the Province of Manitoba with the development of hydrogen power and I would like to see the Manitoba Hydro proceed with the development of hydrogen power. I know it is 20 or 30 years from now, but if we don't start now, it will be 30 or 40 years from now. Thank you.

**MR. KRISTJANSON:** Mr. Chairman, we endorse your sentiments and your views and it is a fact that in Northern Manitoba we do have an abundance of hydro-electric energy and it's my understanding that what is required is a supply of water and a supply of energy to produce hydrogen. So just on the surface it would seem that this represents an opportunity 20 or 30 years from now or maybe even less time than that, and we will take your suggestion very seriously. Our first step would be to establish whether or not this is a proper function for Manitoba Hydro as it now exists.

**MR. KOVNATS:** Thank you. That's exactly my point, whether in fact it would be a proper function of Manitoba Hydro. Thank you.

**MR. CHAIRMAN:** Mr. Walding.

**MR. WALDING:** Mr. Chairman, I have a couple of short questions, the answers to which might well not be known immediately and perhaps the information could be obtained for Tuesday morning. One of them has to do with the increase in water rentals from last year. I would like to know what the financial impact has been on Manitoba Hydro and also what effect it has had on Winnipeg Hydro and the effects of the rate freeze, what have those financial effects been on Winnipeg Hydro?

**MR. KRISTJANSON:** Mr. Chairman, in the interest of effectiveness in these discussions, we may be able to give you those answers now. Mr. McKean, or Mr. Brennan.

**MR. WALDING:** Mr. Chairman, I ask them at this stage — there may be follow-up questions to the answers to them, so it was merely to save time that I sort of gave notice of them.

The other question that I had was on the possibility of regulating the East Channel, as to when that will be economical to do, if Hydro can perhaps give me an indication of when that might be reasonable to do.

**MR. CHAIRMAN:** Mr. Craik.

**MR. CRAIK:** On a point of order, Mr. Chairman, there is a request here for information about the City

of Winnipeg Hydro, and Manitoba Hydro does not deal with City Hydro in this regard. Water rental changes would be between the province's department dealing in this matter and the utility, so Manitoba Hydro may not be in a position to answer those questions.

**MR. WALDING:** If Hydro doesn't have the answer, then that in itself answers the question, but I know that there is a complex cost sharing arrangement between Manitoba Hydro and Winnipeg Hydro and I would be surprised if Manitoba Hydro were totally ignorant on, you know, the financial aspects of the freeze and the increase in water rentals.

**MR. CRAIK:** Mr. Chairman, I think there was just a recent announcement about a grant to the City of Winnipeg that did involve the water rental settlements with the City of Winnipeg, so it is really a provincial matter rather than a Hydro matter.

**MR. WALDING:** However, I would appreciate any information that Hydro can supply on this matter.

**MR. CHAIRMAN:** That being the case, Mr. Walding, would you and other members of the committee suggest that committee rise now and we will meet again on Tuesday at 10:00 a.m.?

Committee rise.